

Meeting of the Cabinet – 20th March 2024

Report of the Director of Finance and Legal

Spending Controls

Purpose

1. To revise the spending controls approved by Cabinet in October 2023.

Recommendations

2. That Cabinet:
 - Note the review of spending controls set out in this report.
 - Approve the revised process set out at Appendix A.
 - Delegate authority to the Chief Executive and Director of Finance and Legal to further refine the processes supporting the spending controls as required.

Background

3. Cabinet in October 2023 approved the introduction of spending controls to reduce the deficit in the current financial year and the ongoing impact on future years. They are designed to minimise spending except where an exception applies. The exceptions are designed to maintain essential services and the Council's ability to function.
4. Cabinet approved the exceptions in outline and delegated authority to the Chief Executive and the Director of Finance and Legal to refine the controls as required to facilitate their implementation. Controls over recruitment, retention of agency, interim and fixed term workers and new contracts over £213,000 go through the Spending Control Group (SCG) consisting of the Chief Executive, Deputy Chief Executive and Director of Finance and Legal. Directors, Heads of Service and individual budget

holders have been responsible for applying the controls to lower value contracts and discretionary spending (see below) on existing contracts.

5. The controls have now been in place for over four months. A working group of Directors has reviewed their effectiveness. The original controls were developed at pace to deliver savings at pace and there is scope for refinement without compromising on the primary aim of financial sustainability:
 - Activity has been focussed around controls on workforce and there has been less focus on other categories of spending.
 - The controls may promote engagement of permanent employees to roles where agency/interim workers would be more appropriate.
 - Controls have been administered using a cumbersome shared spreadsheet model.
 - Some budget managers have not focussed on the agreed exception criteria and have given lengthy narrative justification for spending requests.
 - There is little visibility over discretionary¹ non-workforce spending and a perception that decisions at this level are not consistent.
 - The original list of exceptions included expenditure to avoid a higher cost, but it was not sufficiently clear that this would include expenditure to drive a greater increase in income.
 - Land and property transactions were not explicitly recognised as a category of expenditure.
 - The workload for the SCG has been significant and this has sometimes delayed legitimate essential expenditure.
 - More attention needs to be given to communications and engagement so that budget managers have a sense of ownership of the controls.

6. The original spending controls were focussed on workforce and on delivering savings without incurring severance costs. As such, all existing agency, interim and fixed term employment contracts have been reviewed and terminated where an exception did not apply. New external recruitments have also been tested against the exception criteria. Going forward it is proposed that controls over recruitment go through a two-stage test:

¹ There has been feedback that some terminology in the controls is poorly understood. Discretionary spending means spending on a contract where there is no fixed volume of good or services. For example, the Council has a contract for printing and mailing, but services have discretion about how many communications to send out in paper form.

- Does the engagement of a new worker meet one or more of the exceptions?
- Is the position more appropriately filled by an employee or by an agency/interim worker (with defined criteria to steer this decision)?

7. A new e-form is being developed to administer workforce controls. This will enforce the application of specific exception criteria and limit the length of narrative explanations.

8. There are four main mechanisms for incurring non-pay expenditure. The following table gives a sense of scale:

Mechanism	Expenditure 2022/23		Comment
	Value £m	Number of transactions	
Unit 4 invoices	206.1	114,246	Fixed value contracts and discretionary spending
Purchase cards	4.8	34,748	Discretionary spending
Liquid Logic/Synergy	165.9	203,690	Social care placements and payments to early years providers meeting essential expenditure exception
Contract Manager	68.8	1,280	Fixed value contracts and discretionary spending
Total	445.6	353,964	

9. It is proposed that, going forward, Central Finance will prepare a random sample of Unit 4 invoice transactions to be reviewed by SCG. Internal Audit are also identifying resource within their plan for 2024/25 to support this work. These exercises will be used to identify inconsistencies in the interpretation or application of controls, highlight any underlying weaknesses in business-as-usual financial controls and reinforce communications to managers and budget holders. Where these exercises identify fraud and/or theft, those issues will be handed back to management and/or Internal Audit for action as appropriate.

10. The Central Finance team are responsible for administering purchase cards for the Council and advising authorised holders of appropriate use. The Purchase Card Code of Practice is also available on Connect [Purchase Card Code of Practice](#). At the time of writing this report there were 462 active cards in use across the council.
11. The spending controls have reinforced the requirement to scrutinise the purchase card authorisation limits and usage. The default monthly credit limit of a purchase card is set at £1,500, although this does vary dependent on the needs of the service. Central Finance have reviewed the activity for a 12-month period to establish how many cards temporarily were over the monthly limit. Of the 320 cards held by Directorates 86 (27%) of those cards were over the limit at some point during the past 12 months.
12. A further exercise was undertaken by Central Finance to confirm that for every temporary increase to the monthly limit an authorised signatory had signed and provided a reason for that increase. The team were able to confirm that in every case there was evidence of this. Accountancy is working with Directorates to establish whether:
 - The card is still required, particularly if there has been minimal usage.
 - The credit limit is still reasonable, particularly if the monthly limit is consistently increased.
 - The authorised signatory is fully aware of the card usage.
 - The transaction is appropriate.
13. Detailed reports at the transaction level have been issued to Directorates and accountants are working closely with services to scrutinise and challenge spending in all areas. These reports have been summarised by individual and by spending category to identify spending. Central Finance will also produce random samples of purchase card transactions for SCG. These will be used for the same purposes as sampling of Unit 4 invoices.
14. The spending controls were originally approved so as to apply to both capital and revenue expenditure including Public Health and Housing Revenue Account (HRA) as well as the General Fund. This has the advantage that it is simple to understand, consistent processes are applied across the whole organisation, all budget managers are required to apply the same standards of financial rigour and there is a perception of fairness for staff in different services. However, in some other

councils with spending controls, Public Health and the HRA are out of scope. The HRA is ringfenced to landlord activities and there has been an improvement in the financial outlook of the HRA. Public Health Grant is subject to national guidelines but there is some flexibility to use it for expenditure that meets health objectives. Balancing these considerations, it is proposed that HRA are required to apply the principles of the spending controls, but are exempted from the requirement to have decisions approved by Spending Controls Group.

15. A revised process, reflecting the lessons learned and other considerations set out above, is attached as Appendix A. It is proposed that the new process comes into force from 1st April.
16. A separate working group has been tasked to incorporate the revised spending controls, including the lessons learned from this report and sampling of transactions, into the wider Communications and Engagement Plan. It is proposed to use the strapline “Think Before You Spend”. Spending controls will also be complemented by the work of functional reviews which will deep dive into the exercise of financial control in specific areas. These functional reviews will take time to complete and drive budget reductions across all areas of the Council’s activity. It is important that, until that work is completed, we continue to embed good standards of financial control through communications and engagement.

Finance

17. When spending controls were introduced in October, it was proposed that those controls remain in place until unringfenced reserves return to a level of 20% of net revenue spend. The budget approved by Council on 4th March shows, based on current savings plans and before any functional reviews take effect, that unringfenced reserves will fall to around 4% by March 2025.
18. There has been an improvement from the deficit of £15.2m that was forecast in October to the deficit of £14.1m that was reported to Council on 4th March. This reflects a range of favourable and adverse factors, not all directly linked to the spending controls. However, it should be noted that the first phase of implementation of the controls focussed on staffing and agency and that this element of the forecast improved by £4.5m.

Law

19. The Council's budget setting process is governed by the Local Government Finance Acts, 1988, 1992, and 2012, and the Local Government Act 2003.

Risk Management

20. The Corporate Risk Register recognises the risk that the Council may be unable to set and/or manage its budget so as to meet its statutory obligations within the resources available. This risk is allocated the highest possible rating of 25.

Equality Impact

21. There are no direct Equality issues arising from this report.

Human Resources / Organisational Development

22. The spending controls include controls over recruitment.

Commercial / Procurement

23. The spending controls include controls over the letting of contracts.

Environment / Climate Change

24. There are no direct climate issues arising from this report.

Council Priorities and Projects

25. The aspirations of the Council Plan can only be delivered if the Council is financially sustainable.



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Appendices

Appendix A - Spending Control Process (revised March 2024)

Spending Control Process (revised March 2024)

1. The Spending Control Group (SCG) consists of the Chief Executive, Deputy Chief Executive and Section 151 Officer. The following controls specify where decisions are to be made by the SCG and where they are delegated to Directors, Heads of Service and budget holders.
2. The controls are designed to minimise spending except where an exception applies. The exceptions are designed to maintain essential services and the Council's ability to function.
3. The controls apply to all funds of the Council, both revenue and capital, but HRA are expected to apply the principles but exempted from seeking approval from Spending Controls Group. They apply even where a budget has been approved by Council and that individual budget line has not been overspent.
4. Default restrictions on spending are as follows (except where an exception applies):
 - No new contracts should be let.
 - Existing contracts not to be extended beyond their end date or next break point.
 - No discretionary spend should be incurred on existing contracts. (Discretionary spending is defined as spending on a contract where there is no fixed volume of goods and services that the Council is obliged to receive.)
 - External recruitment of employees and engagement of interim and agency workers should be frozen.
5. For an exception to the above restrictions to apply, one or more of the following conditions must be met and options for more cost-effective methods of delivery should have been properly considered:
 - The expenditure (including any whole life cost) is funded from grant with no council match funding.

- The expenditure generates a surplus.
 - The expenditure is for an essential service (with the definition that delivery of that service at that level is likely to be enforceable by a court).
 - The expenditure directly supports an essential service.
 - There is a clear case that the expenditure prevents a higher cost essential service.
 - There is a clear case that the expenditure will bring in additional income greater than the value of the expenditure.
 - The expenditure is essential to the good governance of the Council.
6. Exceptions in relation to recruitment, agency, interim and to all other contracts over £213,000 will be reviewed by the Spending Control Group.
7. Further detail in relation to different expenditure types is set out in a table in Annex 1. This lists a service area to lead on reporting and coordination in relation to each expenditure type. This will include **collating** requests for exceptions to SCG (including Equality, Diversity and Inclusion (EDI) implications), capturing and ensuring implementation of the outcomes, document management, audit trail and integration with existing processes as far as possible. Directors are responsible for **producing** the case for an exception, service implications and any service-related EDI implications.
8. It should be noted that for some of the expenditure categories, the role of SCG will be **active**. For other categories, the role will be **retrospective**, i.e. discretion will sit within directorates, but the application of the controls will be reviewed by SCG and this may lead to refinement of the controls and messaging around the controls. This will include reviewing random samples of purchase card and Unit 4 invoice payments to assess the consistent application of the controls and identify issues with financial controls and/or theft and/or fraud.

Annex 1: Expenditure Types

Expenditure type	Reporting and coordination²	Role of Directors, Heads of Service and Budget Holders³	Role of Spending Control Group (SCG)
New recruitment / engagement of interim or agency worker	People and Inclusion	Hold vacancy or request exception from SCG and consider whether to request direct employment of an employee or engagement of an interim/agency worker.	Active – receive proposed exceptions, approve or reject and consider application of criteria for direct employment or interim/agency.
New contracts and extension of existing contracts over £213k	Procurement (Procurement Management Group)	Consider whether to request exception from SCG.	Active – receive proposed exceptions and approve or reject.
New contracts and extension of existing contracts under £213k	Procurement (Procurement Management Group)	Individual contract owners to consider whether to let or extend contract (HOS and directors may do local sample checking).	Retrospective – receive reports, do sample checks and highlight any issues
Unit 4 (or Contract Manager or Liquid Logic) requisitions for discretionary ⁴ expenditure	Financial Services	Individual budget holders to consider whether to approve requisition (HOS and directors may do local sample checking).	Retrospective – receive reports, consider patterns of expenditure, do sample checks and highlight any issues.

² This will include **collating** (but not **producing**) requests for exceptions to SCG, capturing and ensuring implementation of the outcomes, document management, audit trail and integration with existing processes as far as possible.

³ Directors may determine levels of delegation within their own directorate as long as these do not override the role of SCG.

⁴ Discretionary expenditure is defined as expenditure where there is not a fixed amount of goods or services under the contract.

Purchase card discretionary expenditure	Financial Services	Individual card holders to consider whether to make purchase (HOS and directors may do local sample checking).	Retrospective – receive reports, consider patterns of expenditure, do sample checks and highlight any issues.
Purchase of land and property	Corporate Landlord	Consider whether to request exception from SCG.	Active – receive proposed exceptions and approve or reject.