
EMPLOYABILITY SERVICE CONTRACT

1.0 EXECUTIVE SUMMARY

- 1.1 The Performance Review and Scrutiny Committee has delegated powers in terms of the Scheme of Administration and its Terms of Reference. This includes responsibility for scrutiny in relation to commenting on decisions and policies agreed by the Council and other committees, and the impact they have on Argyll and Bute as an area, and making recommendations as appropriate.
- 1.2 Good Scrutiny provides a critical friend challenge to decision makers, enables the voice of the public and should be for the purpose of driving improvement.
- 1.3 At a special meeting of the PRS Committee 18 March 2016, the Committee agreed a formal scrutiny review of the Employability Service be undertaken. Terms of Reference were also agreed, the purpose and objectives being:
- 1) To examine the financial management of Employability service including governance and reporting arrangements,
 - 2) To make recommendations for improvements.
- 1.4 The overarching remit of the Employability service is to assist long term unemployed people into sustainable employment. Over the past 15 years, the team has assisted approximately 2,450 people access long term employment.
- 1.5 In respect of social benefit and initiative success the Committee acknowledges that the service is recognised as performing well. The Committee further notes that unlike other local authorities, the Employability service is not core funded. Notwithstanding this success, Members of the Committee have specific concerns regarding financial management, governance and reporting arrangements.
- 1.6 A workshop session was held on 26 April 2016 with members of the Committee and officers from the Economic Development and Strategic Transportation services together with officers from Strategic Finance.
- 1.7 This report provides comments and recommendations arising from the Committee's scrutiny activity which included officer presentations, responses from workshop question and answer sessions and a review of available documentation.
- 1.8 Recommendations made cover a number of areas and are underpinned by a requirement to ensure robust procedures and arrangements are in place which allow for effective, timely monitoring and reporting both at operational and Member level.

EMPLOYABILITY SERVICE CONTRACT

2.0 INTRODUCTION

2.1 This report provides comments and recommendations arising from the Committee's scrutiny of the Financial Management, Governance and Reporting arrangements in respect of the Council's Employability Service contract.

3.0 BACKGROUND**3.1 Overview**

3.1.1 The Employability team in Argyll and Bute supports the long term unemployed and helps people to access skills, training and jobs. The former Executive Committee of the Council agreed in June 2011 that the Argyll and Bute Employability team would deliver the UK Government's Work Programme and gave approval to enter into a contract with Working Links to enable the team to deliver the work of the programme throughout Argyll and Bute, part of West Dunbartonshire, the Highlands, Western Isles, South West Inverness and Nairnshire.

3.1.2 The Financial Model associated with the delivery of the programme was configured in a way that the Employability team gains the majority of its funding from Contract income with only a very small £3k revenue contribution from the Council. In the paper to Executive Committee June 2011 it refers to a "*cost neutral service*". Further reference is made to "*sufficient reserves to cover a short-fall in customer income for a period of 18 months to cover redundancy costs for the whole team*".

3.1.3 In the same paper, a risk strategy is outlined which covers a range of potential risks. Exit Strategy mitigations are noted as being "*A robust financial model is in place as a key element of the business plan for the delivery of the work programme which will enable the Employability Team Manager to review performance on an ongoing basis with key trigger points with regard to potential exit from the contract and associated costs.*"

3.1.4 From the outset of the programme in 2011/12 through to 2014/15 expenditure consistently exceeded income. Total deficit from the same period was in the region of £715k with in year deficits ranging from £108k to £294k.

3.1.5 In order to fulfil the commitments of the contract until the end of 2017/18, the Council were requested to approve a request for an additional £456k (inclusive of redundancy payments) to be covered by Argyll and Bute's general fund as a one-off obligation.

3.2 Issue 1 – Financial Management

3.2.1 During the course of the Committee's scrutiny, it became apparent that financial management arrangements were very weak. The Committee has identified a number of areas which in their view give cause for concern:

- Interaction between service staff and strategic finance staff was minimal throughout the first 3 years of the initiative. This was due to the external (Contract Income) funding nature of the programme which resulted in this area not being subject to the same robust monitoring and forecasting protocols associated with revenue budget activity.
- Roles and responsibilities were not clearly defined. This was further complicated by considerable staff turnover within the service during the period. This contributed to a perceived lack of ownership which resulted in a clear lack of challenge or investigation into underlying reasons for the adverse outturn position. It is not clear who held budget holder or financial responsibility.
- The aim of being self-funding as stated in the Executive paper of 2 June 2011 was never achieved in respect of Income and Expenditure. The Committee view is that the availability of off-setting reserve funds appears to have diluted the importance of this objective.
- Despite reference to an exit strategy and associated mitigations including robust financial monitoring and key trigger points, the Committee is not assured that sufficient review activity or management action was undertaken for the first 3 years of the programme. The Committee does acknowledge that some financial cost reduction activity commenced in financial year 14/15 and that there was improved interaction between Strategic Finance and Service staff, however, by this time year on year deficits of £130k, £182k and £108k had been recorded.
- The contract has been referred to as being "commercial" in nature. Given this interpretation the Committee is disappointed to note a lack of some basic financial protocols such as management accounts, financial analysis of income streams, expenditure review and cash flow forecasting.
- During the course of the Committee's scrutiny it has been suggested that the funding model was perhaps flawed from the outset. A complex client base together with the rural nature of the area covered meant that income generation was more difficult to achieve in the latter years and expenditure was inherently higher than similar "urban" type initiatives. The Committee is disappointed to note that no escalation in financial monitoring took place despite an awareness of these issues.

3.3 Issue 1 – Recommendations

3.3.1 The Council should request officers to review financial monitoring protocols in

place for dealing with externally funded initiatives to ensure that Services and Strategic Finance have a coordinated and consistent approach.

Any such approach should ensure management and Members are fully sighted on initiative status including outturn position, any cost and demand pressures, compliance or otherwise with award / contractual criteria and performance with agreed financial aims, i.e. breakeven, cost neutral, return on investment.

- 3.3.2 The Council should request officers to review roles and responsibilities to ensure these are clearly defined and to further ensure that should there be any staff turnover, continuity and information flow is not compromised.
- 3.3.3 The Council should request officers to review its business case process to ensure that financial modelling is robust and that any associated risk is actively managed and reported.

3.4 Issue 2 – Governance and Reporting Arrangements

- 3.4.1 Governance and Reporting arrangements at Strategic and Operational level can be described as ad-hoc. The Committee was unable to determine whether a programme of reporting had been agreed or discussed. Concern was raised in relation to adequacy, profile, recording and timeliness.
- 3.4.2 There was a clear lack of formal reporting of key financial milestones and/or trigger points. Over the period June 2011 through to August 2015 there was only one specific report to Council or a Committee of the Council on Employability service. This was in January 2013 which did reference a potential red risk in relation to income generation however did not provide any detailed commentary in the body of the report and did not reference a first year deficit of approximately £130k or indeed a potential in year deficit of £182k.
- 3.4.3 During the course of the scrutiny it was intimated to members that Governance was partially covered by means of reference to performance reporting which took place via the PRS committee. This is a headline performance report which is also discussed at DMT, SMT and Area Committee. The Committee acknowledge reference is made to team challenges within a substantial document pack, however, reject the view that this provides adequate governance and furthermore do not accept that the narrative provided draws sufficient profile or importance to the significant underlying issue.
- 3.4.4 Service staff have acknowledged, with hindsight, that reporting to the Council should have been on a more regular basis and the Committee concur with this view.
- 3.4.5 In the June 2011 paper, a comprehensive risk assessment is appended to the report. Income generation, support from the Council and an exit strategy are identified and classified as risks, unfortunately, there does not seem to have been any further reference, update or reporting of these risks on an on-going basis.
- 3.4.6 In the January 2013 Paper to Council, a performance update was given which

provided comprehensive data in relation to outcomes. Specific reference was made to job outcomes being essential to the financial sustainability of the service in the medium and longer term. The report then refers to indicative internal outcomes targets being set to assist with monitoring sustainability. During the review the Committee was able to ascertain that no further follow up activity took place in relation to this important control.

- 3.4.7 Also contained within the January 13 report is reference to a robust financial model which will enable performance to be reviewed on an on-going basis with key trigger points with regard to exit from the contract. Again during the review it was ascertained that the service did not follow up the noted action and no formal review activity took place.
- 3.4.8 Officers made reference to discussions taking place at Departmental Management Team (DMT) level however these discussions did not lead to any form of strategic reporting.

3.5 Issue 2 – Recommendations

- 3.5.1 The Council should request that officers give consideration to development of standard governance and reporting protocols for these types of contracts or projects. As part of this consideration, the development of a reporting format should be defined to ensure that financial objectives and outcomes are given appropriate weighting. Consideration should also be given to the reporting requirements at both operational and strategic level.
- 3.5.2 The Council should request that officers give consideration to tracking and /or monitoring of actions which are outlined in reports to Members to ensure that these are undertaken and /or where plans have changed, appropriate agreement / authorisation is evident.
- 3.5.3 The Council should request that officers give consideration to current performance reporting arrangements, specifically whether this method allows issues of material importance to be drawn to the attention of members.

4.0 RECOMMENDATIONS

- 4.1 The Council should request officers to review financial monitoring protocols in place for dealing with externally funded initiatives to ensure that Services and Strategic Finance have a coordinated and consistent approach.

Any such approach should ensure management and Members are fully sighted on initiative status including outturn position and variation from forecasts, any cost and demand pressures, compliance or otherwise with award/contractual criteria, performance with agreed financial aims, i.e. breakeven, cost neutral, return on investment.

- 4.2 The Council should request officers to review roles and responsibilities to ensure these are clearly defined and to further ensure that should there be any staff turnover, continuity and information flow is not compromised.

- 4.3 The Council should request officers to review its Business case process to ensure that financial modelling is robust and that any associated risk is actively managed and reported.
- 4.4 The Council should request that officers give consideration to development of standard governance and reporting protocols for type of contract or project. As part of this consideration, the development of a reporting format should be defined to ensure that financial objectives and outcomes are given appropriate weighting. Consideration should also be given to the reporting requirements at both operational and strategic level.
- 4.5 The Council should request that officers give consideration to tracking and/or monitoring of actions which are outlined in reports to Members to ensure that these are undertaken and/or where plans have changed, appropriate agreement/authorisation is evident.
- 4.6 The Council should request that officers give consideration to current performance reporting arrangements, specifically whether this method allows issues of material importance to be drawn to attention of members.

5.0 CONCLUSION

- 5.1 The Employability service is acknowledged as being successful in terms of outcomes achieved. However during the course of the Committee's scrutiny a number of material issues were identified, which regardless of outcome success, are of significant concern to members of the Committee. Financial management arrangements were deemed weak with minimal basic reporting controls in place. Insufficient profile or importance was given to consistent year on year six figure deficits. Governance and reporting arrangements were poor with limited reference to issues arising. Any available commentary in relation to any challenges facing the service did not make clear any financial trends and their implications.

6.0 IMPLICATIONS

- 6.1 Policy: Potential revisions to year end flexibility policy in respect of control account governance.
- 6.2 Financial: None
- 6.3 Legal: None
- 6.4 HR: None
- 6.5 Equalities: None
- 6.6 Risk: The Council must ensure that when entering into contractual obligations, appropriate due diligence is undertaken which, although not an exhaustive lists, covers topics such as financial modelling, roles and responsibilities and

where appropriate, shared risk arrangements.

6.7 Customer Service: None

26 May 2016

For further information contact: Kevin Anderson, Chief Internal Auditor,
Tel 01369 708505