

FINANCIAL MANAGEMENT REVIEW

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| Cabinet | 23 September 2021 |
| Report Author | Tim Willis, Deputy Chief Executive & S151 Officer |
| Portfolio Holder | Cllr David Saunders, Cabinet Member Finance |
| Status | For Information |
| Classification: | Unrestricted |
| Key Decision | No |
| Ward: | All |

Executive Summary:

The council's Financial Procedure Rules and Contract Standing Orders are due to be updated. Additionally, the council is in the process of procuring a replacement financial management system to replace our current system. In light of these changes, and in order to improve the quality of financial management across the council, a consultant was employed as a "critical friend" to assess current practice and to make recommendations for the future. The consultant's report is provided in Annex 1. This report sets out a summary of the findings.

Recommendation(s):

To note the report.

Corporate Implications

Financial and Value for Money

The outcome of the work flowing from the action plan is intended to improve the quality of financial management across the council and to enhance accountability.

Legal

Equality Act 2010 & Public Sector Equality Duty

Members are reminded of the requirement, under the Public Sector Equality Duty (section 149 of the Equality Act 2010) to have due regard to the aims of the Duty at the time the decision is taken. The aims of the Duty are: (i) eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act, (ii) advance equality of opportunity between people who share a protected characteristic and people who do not share it, and

(iii) foster good relations between people who share a protected characteristic and people who do not share it.

Protected characteristics: age, sex, disability, race, sexual orientation, gender reassignment, religion or belief and pregnancy & maternity. Only aim (i) of the Duty applies to Marriage & civil partnership.

CORPORATE PRIORITIES

This report relates to the following corporate priorities: -

- *Growth*
- *Environment*
- *Communities*

1.0 Introduction and Background

1.1 The rules governing the council's financial management are contained in the Financial Procedure Rules (FPRs). The rules governing the council's procurement are contained in Contract Standing Orders (CSOs). Both of these are incorporated into the council's Constitution. They are due for updating and this report will help provide the background to the updates, which when finalised, will need to be approved by Council.

1.2 The replacement of the council's financial information system has been approved as part of the capital programme. It will take approximately two years to implement, but its specification and implementation will be cognisant of the findings of the FM Review and reflect updated FPRs and CSOs.

2.0 Context

2.1 As has been well documented, there are multiple financial risks facing the council. There is substantial national uncertainty regarding the future structure of local government finance. There is uncertainty regarding the Spending Review, and outstanding reviews regarding Fair Funding (how local authorities are financed) and Business Rates (a major source of local government income).

2.2 Locally, although TDC's financial sustainability has been maintained in recent years by careful management of reserves, it has suffered a series of unexpected financial burdens. Even though, in general, budgets have been managed well, there have been instances of one-off costs and overspends that have undermined financial stewardship and diminished reserves.

2.3 In the past six years, these included the Transeuropa costs, animal export claims, a hand-arm vibration fine and costs and a grant repayment incorrectly claimed, which together amounted to around £9million. More recently, legal costs of around £733,000 (reported to Cabinet on 8 June 2021) and the port berth 4/5 project overspend of £825,000 (reported to Cabinet on 29 July 2021) (current estimates) have further eroded reserves.

- 2.4 These events have an obvious impact on reserves, but they also serve to undermine confidence in the council's financial management - its ability to exercise good stewardship of resources. No matter how robust we claim our financial management to be, as long as these events continue to occur, the evidence suggests we have some way to go. They also restrict the council's ability to think more positively and creatively about the future. Low reserves, that take regular unexpected hits that diminish them further, does not engender a sense of stability and optimism that could enable investment in services and initiatives. Such investment is the very thing that would help the council towards a virtuous circle of service improvement/further investment and growth in reserves.
- 2.5 The Financial Management Review should be seen as a step towards improving financial management not only for its own sake, but critically, to invest in and improve services that are well funded, well run and well regarded by our customers.

3.0 Findings of the Review

- 3.1 The key messages arising from the consultant's report are below, categorised into those related to culture, practical steps and governance/member involvement.

Culture

- 3.2 TDC's reserves are low relative to others and financial challenges are significant.
- 3.3 The finance team is well-regarded and the council's reserves have been well managed, but greater collective ownership of financial management would further enhance the effectiveness of budget management and the control of reserves.
- 3.4 Any changes in Financial Management need to encompass more than just updating or altering policies and rules, they need to be embedded by changing the corporate culture.

Practical steps

- 3.5 A new Financial Management System (replacement to eFin) will contribute towards the positive changes but is not a silver bullet to resolving all the issues.
- 3.6 Moving towards a "manager self-serve" and "business partnering" approach would increase budget ownership and accountability. This will take some time and will require better-quality information to budget holders, more training, and a changed culture.
- 3.7 Financial reports for budget holders should be easier to understand. This will increase the sense of ownership of budgets and improve the dialogue between finance and budget holders.
- 3.8 Simplification of recharging would improve understanding and reduce the resources needed to maintain the current system. There are accounting requirements to

maintain recharges (e.g. between the General Fund and Housing Revenue Account, and for calculating service charges) but they could be simplified.

Governance/member involvement

- 3.9 Finance procedure rules should be updated: delegated authority and decision-making thresholds should be reviewed, to raise delegated authority for budget holders (BHs) and reduce the threshold for Cabinet/Council decisions. This would involve increasing the threshold that requires procurers to obtain three quotes, from the current level of £10k; and reducing the current key decision threshold when decisions are required by Cabinet, from the current level of £250k.
- 3.10 Member-led challenge panels would help internal scrutiny. This could be through informal Cabinet, or Overview & Scrutiny Panel, or a format similar to a Cabinet Advisory Group. This could include a focus on specific services, or on the delivery of budget savings.
- 3.11 Monthly by-exception monitoring reports to informal Cabinet would enhance financial management. These can be relatively simple, to focus attention on key areas of financial risk.
- 3.12 Consideration should be given to a new strategic priority of value for money. Although there are references to resources in the Corporate Statement, there is no direct objective to improve/enhance value for money.
- 3.13 Approval of reserves use, through the S151 Officer, by Cabinet/Council would increase transparency. Greater member scrutiny on the level and use of reserves will help emphasise the adverse consequences of overspending and member involvement in the potential use of available reserves.
- 3.14 Better planning and control of the capital programme will help reduce under-performance. This has manifested in recent years in underspends/slippage but better control would also help avoid overspending. Greater member involvement would also improve accountability.

4.0 Next Steps

- 4.1 An action plan will be finalised that incorporates all of the above findings. Progress against the plan will be discussed at informal Cabinet meetings and specifically with the Cabinet Member for Finance.

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Annex List

- Annex 1: FM Review - Consultant's report
- Annex 2: Appendix 1 to the Consultant's report - scope

Annex 3: Appendix 2 to the Consultant's report - arrangements

Corporate Consultation

Finance: N/A

Legal: