Thanet District Council
Review of Financial Management Governance

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Final

1 Introduction

1.1 Thanet District Council commissioned consultancy support to provide an independent review of financial management practice. This is intended to be a preliminary piece of work to identify proposals for improvement for consideration by the Council, the underpinning rationale is to ensure arrangements are in place that support the financial sustainability of the Council and where the delivery of value for money is paramount. Following this initial high level review, further work may be commissioned to support its development and implementation.

1.2 The Council has requested a focus on a review of key governance arrangements to improve budget management. This includes a review of the current financial regulations around budget management, key financial controls around financial management practice; corporate reporting on financial performance; overview of the recharge mechanism and ways in which budgets are delegated to key officers. In addition, a high level review of capital programme management, controls and governance was undertaken. The scope of the commission is attached at Appendix 1.

1.3 The approach adopted is to act as a “critical friend” to bring fresh ideas and insight in a spirit of constructive challenge. It is intended to provide the groundwork for consideration by the Council to bring about improvements in financial management, to identify strengths and good practice; and to suggest areas for improvement particularly to bring up to date and future proof key financial frameworks and arrangements.

1.4 The review took place during May and June 2021 over a 5 day period to consider relevant documents, meet key personnel and to report on key findings and recommendations. Given the current pandemic situation, the work was undertaken remotely. A summary of the arrangements for evidence gathering, key documents reviewed and those interviewed as part of this review are contained in Appendix 2. Colleagues provided clear and prompt responses to queries.

1.5 This review has been carried out by Helen Seechurn, an independent financial adviser specialising in local government finance. Helen has experience of working both as a statutory finance officer (s.151 officer) and as an independent consultant. As a consequence, this review has focussed on financial management rather than procurement, legal or commercial management.

1.6 Every effort has been made to ensure the information is accurate. However, it should be recognised this review is not an audit but instead focusses on key financial arrangements. Reliance has been placed on the information provided and discussions with officers of the Council. Consequently, the author does not make representation that the contents of the analysis are accurate and is not responsible for any errors, omissions or out of date information. The author accepts no responsibility if any person or organisation incurs claims or liabilities or suffers loss or damage because they relied on anything in this report.

2 Thanet District Council

2.1 Thanet District Council is one of 12 district councils in Kent. Its Council offices are based at Margate whilst Ramsgate and Broadstairs are also main urban centres in the borough. The current population is estimated at 142,000 and has seen a steady increase from 136,000 in 2012. It is ranked as 34th most deprived borough in England. 21.4% of the district's Local Super Output Areas (LSOA) are amongst the most deprived 10% areas in England.

2.2 Thanet District Council is composed of 56 Councillors in total. The political composition is: 25 Conservative; 18 Labour; 6 Thanet Independents; 3 Green 2 Independents and 2 vacant seats, therefore currently is politically No Overall Control and during the course of this review, there was a change in the political administration. It operates a Cabinet model of governance.

2.3 The Net Revenue Budget for General Fund 2021/22 is £17.2m. In addition, the Council operate a ringfenced Housing Revenue Account with a turnover of £14.5m. A combined Capital Programme of £42m covering 2021/2- 2024/25.

2.4 The Council set a council tax increase, at the maximum permitted without triggering a referendum, in February 2021 of £5 per Band D property to provide for council tax revenues of £10.7m. Council tax currently accounts for 62.5% of the net budget requirement, which is line with the average for district councils.

2.5 The No 3 budget monitoring 2020/21 indicates a General Fund forecast outturn overspend position of £1.7m c 10% of budget. This includes the full impact of COVID and anticipated government support, the overspend will be met from General Fund balances. The HRA position is broadly in line with the approved budget. Meanwhile the combined capital programme of £45m in 2020/21 is expected to underspend in year by £21m due to delays to schemes. The general fund revenue position however has recently moved with emerging financial pressures only just coming to light and may differ significantly from the last published report. Whilst not yet finalised the outturn report 2020/21 is to be reported to Cabinet in July 2021.

2.6 General Fund reserves stood at £14.5m at 31 March 2020 which represents 75% of the net revenue charge and is below the average for a shire district council of 127%. However, the CIPFA Resilience Index 2021 identifies Thanet as low risk on Reserves Sustainability Measure arising from stability in the rate of change over the last three years. This is an improved position from the prior year's assessment which very much identified Thanet's financial resilience as high risk. The improved position reflects the Council's approach to managing finances tightly and stabilising the reserves position.

2.7 The future financial challenges are set out clearly in the Medium Term Financial Strategy which reports a gap of £2.5m to 2024/25, which is about 15% of the current budget. All in all, the size of the future challenge, coupled with low reserves and unexpected pressures suggest the overall financial position continues to be quite fragile and the Council will be faced with tough choices.

2.8 The Council employs c500 Full Time Equivalent (FTE) staff. It directly provides operational services of waste collection and cleansing; and has recently brought in house the arm’s length housing management company that manages the housing stock. For shared services, the HR service is in the process of being returned to direct provision whilst IT is considering a similar route though not quite yet in place. Key services provided through partnership include the Revenues and Benefit services through Civica, and Internal Audit through the East Kent Audit Partnership.

2.9 External audit issued an unqualified audit opinion in respect of the Statement of Accounts 2019/20. Their opinion in respect of value for money has yet to be concluded in respect to 2018/19 and 2019/20 due to outstanding objections from a number of local electors. For clarity, these matters are not in relation to budget management practice and have not been examined as part of this review. The external auditor is planning to undertake a corporate governance review during the forthcoming financial year.

3 Executive Summary

3.1 This report is intended to be helpful to give the Council some fresh ideas to improve financial management governance and practice. The Council is in a financially challenging position. Overall level of reserves are comparatively low when compared to other district councils, coupled with a forecast gap of £2.5m by 2024/25, the Council will be faced with some critical decisions around strategic priorities and the allocation of resource in the near future. Furthermore, any future unexpected financial pressures will be increasingly difficult to contain in the event reserves are further depleted.

3.2 The Council recognise this position and are therefore seeking to improve key processes to support its strategic development, ensure financial health and to improve the efficacy of financial management practice. However, whilst changes to financial management practices and policies will act as the foundation for financial health, it is the way the Council embeds and puts these into the heart of the organisation that brings about sustained financial health. The collective and individual roles of members, officers and the CFO all play a part in contributing to an organisational strategy that supports community leadership sustainably.

3.3 Consequently, successful implementation of the changes recommended in this report, require a planned programme of activity to ensure the necessary culture change is embedded and practices become part of organisational custom and practice, this is not something that will occur overnight and will require significant collective effort. The implementation of a new system alone may not necessarily result in sustained improvements to practice.

3.4 Specific comments on the Budget and Financial Procedure Rules have been provided to the Director of Finance for his review. The approval levels of officers are not clearly set out other than virement rules and the procurement route to follow. The Council key decision threshold at the lower end of £250k is quite high compared to councils of comparable size, whilst the lower limit of £10k in relation to procurement appears to be too low. Some moderation perhaps to improve transparency and local accountability would see the key decision threshold lowered whilst officer threshold could be increased to improve autonomy and timeliness of operational decisions. In addition, the Financial Procedure Rules would benefit from a more succinct guide that sits alongside for easy use in day to day operations for managers.

3.5 The financial leadership exercised by the CFO was held in high regard from those interviewed. However, the Council will require collective effort by both members and officers to ensure it responds effectively to future financial challenges and consideration ought to be given to strengthening accountability of individual lead members and directors on those financial matters under their remit. One way of doing this is to consider the role of internal scrutiny or a series of member-led challenge panels with a focus on the financial performance of individual services. The level of understanding this will bring can be used to inform corporate planning, strategic priorities, and the forthcoming budget round.

3.6 The corporate finance report considered by CMT provides an opportunity to strengthen collective accountabilities. It is vital the Corporate Management Team consider the collective financial health of the Council in the spirit of “no surprises” and actively assess the forecast position for their area of responsibility, involving and briefing individual lead members as appropriate, and in a timely way. In this regard, the Finance team are committed to providing a risk based monthly report through the Corporate Management team to enable prompt corrective action. In addition, clarity and transparency could be improved by including in year budget changes; progress on the delivery of saving plans (and mitigations where necessary); and a summary of drawdown and future commitments against reserves.

3.7 Feedback from managers was highly complementary of the finance team, their availability, skills, and expertise. However, there is a high dependency on key finance experts to understand the budget managers monitoring reports which are largely considered impenetrable. In addition, concerns were expressed around ease of access for detailed information especially workforce structures. Given the financial challenges, it is imperative that managers are able to access information they need in a timely way. The Councils direction of travel is to move towards a self-serve model for finance. To be successful though this will require a number of key enablers: a budget report designed in consultation with budget managers; system functionality to allow access to the necessary systems; training and development on financial management to managers; and developing the role of the finance team through a professionally led finance business partnering approach with a focus on advice and guidance rather than the preparation of reports.

3.8 The CFO has a statutory responsibility to ensure the adequacy of reserves and they are in essence the final safeguard protecting financial health. The Council operates good practice in assessing a minimum level of reserves (currently £2m) held in General Fund balances along with a range of earmarked reserves held for specific strategic purposes.

3.9 The current financial situation understandably requires a centralised approach to the use of reserves recognising the relatively low level of reserves and the tendency for reserves to be used to contain budget pressures rather than for service investment. Consequently, the Council has in place controls for their utilisation exercised by the CFO. This approach has enabled a broadly stable position in the recent past; a prudent approach given the financial challenges the Council faces. Control could be strengthened further with any use of reserves approved by Cabinet or Council once accepted by the CFO. In particular, the in year use of reserves which were not planned during budget setting should not be seen as virements as these in effect change the spending control total rather than reallocate already approved resource.

3.10 Other improvements to strengthen reserve management includes the development of a rolling forecast of reserves factored into the MTFS to improve visibility on the direction of travel of reserves. On a separate note, instances were also cited by budget holders who wished to set aside monies from within their own budgets for operational purposes and in particular to smooth income and spending over multiple years e.g. selective licensing. If budget managers are able to manage this from within their own resource this should be encouraged, recognising though the CFO has ultimate authority over their management taking into consideration an overall strategic view of affordability.

3.11 Recharges were cited as a bug bear. They absorb officers time, and the added value was seen as questionable, being a “necessary evil” of accounting practice. The use of recharges where excessive also blurs accountability and also serves as a distraction to effective budget management from those areas under direct control. It is now perhaps timely to change practices here. This should include a desire to focus on prime costs that are directly under budget manager’s control; a reduction in the number of cost centres and codes thereby reducing the need and volume of recharges; agreeing and completing recharges at budget setting so there are no end of year surprises; and greater transparency where recharges create a genuine cost pressure (as is the case with the HRA, capital charges and “full cost recovery” services).

3.12 The performance of the capital programme with 50% underspend in 2020/21 reflects a lack of adequate phasing and profiling of capital spend with due consideration to the capacity to start the scheme and realistic timescale for delivery. Greater consideration ought to be given to capacity to deliver to understand the phasing of individual schemes at the point of inclusion, along with timely approvals for authority to spend. The extent of slippage masks genuine performance and therefore the Council may wish to consider member oversight of the final costs on completion. The extent of slippage on the capital programme will also have a consequential impact on the revenue implications, consequently financing costs may be being factored at too high a level in the revenue budget which adds further pressure onto the saving requirement.

4 Recommendations

Drawing on the findings of this review, the Council may wish to develop a suitably time lined action plan for implementation that enhances collective responsibility and accountability for financial performance; yet leads to greater autonomy in decision making through the following:

Corporate Management

4.1 Improve accountability of lead portfolio-holders and directors through member led challenge to in year budget performance, achievement of savings and service delivery; and to inform budget setting;

4.2 Consider formal articulation of the respective roles of key players in budget management;

4.3 Consider the merits of adopting a formalised assessment of financial management practice such as the CIPFA FM Code or similar;

4.4 Consider as part of corporate planning, the addition of a strategic priority to improve value for money. This should include a refreshed OD strategy; an organisational value of spending money wisely; and for incorporation within the corporate performance management framework;

4.5 Collectively develop a medium term comprehensive savings plan;

4.6 Refresh the medium term reserves policy/strategy;

4.7 Consider whether carry forward of budgets between years may promote accountability and improve the financial position;

Governance

4.8 Refresh financial procedure rules and bring up to date especially approval limits and thresholds to give greater visibility to members and concurrently greater officer autonomy;

4.9 Consider a more succinct quick reference guide of key authorisations for ease of use by budget managers;

4.10 Improve the rigour in forecasting and timeliness of financial reports to the CMT and to Cabinet to enable collective responsibility for the delivery of a balanced budget;

4.11 Include specific reference within the Financial Procedure Rule to the approval route for the unplanned drawdown of reserves as distinct from virements with Cabinet/Council approval;

Operations

4.12 Develop a new target operating model for the finance service based on manager self-serve and the development of professionally led finance business partnering;

4.13 Put in place the key enablers for budget managers to achieve their financial responsibilities especially around access to information, suitable reports, and training;

4.14 Streamline the recharge mechanism to reduce to the minimum necessary to meet accounting standards and; by reducing the number of cost codes and subjective codes to reduce the number of transactions and complete them at budget time rather than year-end;

4.15 Consider the opportunities to improve capacity in capital programme planning and delivery to reduce slippage and give greater visibility on cost performance;

4.16 Consider the merits of improving procurement practices alongside financial management changes (outside the scope of this review).

5 Supporting Information

Current Financial Regulations “Rules”

5.1 Having reviewed the Budget and Policy Framework Procedure Rules; Contract Standing Orders and Financial Procedure Rules collectively referred to as the “Rules”, comments have been annotated onto the documents as mark ups and provided to the Director of Finance for his review. There are some general comments to be made worthy of note in this report. It should be noted the documents are significantly out of date. For instance, they refer to the defunct Best Value Performance and capital credit approvals, where references to the corporate plan and prudential framework are now relevant.

5.2 More significantly, though the “Rules” were written in a time of pre austerity and the importance of everyone achieving a maximum return for the Thanet pound should be more overt. References should be clearly set out about the imperative of spending money wisely which is the responsibility of everyone. Given the current financial challenges facing the Council, any opportunity to review the “Rules” should seek to put in place arrangements to win “hearts and minds”. Corporate planning, organisational development and performance management arrangements can provide opportunity to embed improvements in financial management practice.

5.3 More could be done to enhance the role of members to give greater oversight. The application of the “Rules” may create some additional bureaucracy particularly if call in procedures are exercised regularly. One way to manage this is for budget monitoring to be reported to Full Council, as well as Cabinet, for debate in the council chamber, with any necessary approvals sought at that time.

5.4 The allocation of contingencies sits outside the virement rules and again whether the lead member should be consulted may improve due diligence and governance here. There is an absence of separate rules around the management and release of reserves and associated approvals. In addition, the approval of carry forward of under/overspends is delegated to the CFO rather than member approval being required. Furthermore, waivers to contracts appear to be largely delegated to officers and consideration should be given, at least, to the lead member for resources to be consulted.

5.5 As holder of the “red card”, the responsibilities assigned to the CFO may also be strengthened particularly around his authority to ensure balances at the minimum level and the setting out of a comprehensive reserve strategy. Approval of submission for external funding for instance should also require CFO sign off prior to submission. In this regard, clarity of expectations of budget holders and project managers around financial management arrangements for grant funded projects ought to be strengthened here to promote accountability.

5.6 Those interviewed consistently expressed concerns about the level of thresholds. The key decision threshold is set at a minimum of £250k, above this an Executive decision is required. Anecdotally, this seemed to be relatively higher than similar councils. Maximum officer authority is limited to £50k, which anecdotally seemed to be lower than similar councils. Thresholds are really only set out in relation to virements and the procurement route to follow in the "Rules" and authorisation of spend by different officers is not clearly set out. Some recalibration of the thresholds to encourage officer autonomy and to streamline practice whilst also promoting transparency would greatly assist the financial governance of the Council. In addition, comments were made that the "Rules" were confusing to follow and a ready reckoner, quick reference guide or summary table of authority would be helpful to aid understanding.

5.7 It may be useful for the Council to consider a (now very old) discussion paper from the Audit Commission entitled World Class Financial Management to redefine its roles and responsibilities around financial management. Alternatively, assess its position against the CIPFA FM Code which focusses on the collective responsibility of budget management.

5.8 At the very least reaffirming roles so that members and officers understand their collective and individual responsibilities for financial management to strengthen accountabilities ought to be clarified and practices be put in place for them to be effectively discharged, if not already established. This should include the development of some type of budget challenge arrangement whereby individual lead members and directors set out their service and financial plans aligned to the corporate strategy.

5.9 Feedback indicated there is a lack of take up of procurement through frameworks and the process of procurement through the portal was found to be quite cumbersome. Some instances of approval levels in the financial system being different to the constitution resulting in the need for manual intervention to approve was cited as being particularly unwieldy. Compliance to contract standing orders though is generally good with reasonable assurance being provided by internal audit in 2019. Whilst outside the scope of this review, the Council may benefit from a review of its procurement practices to streamline process and achieve better value for money. Use of existing frameworks for procurement, if the work is well scoped and a capped price agreed, may be more cost effective, than using the portal and seeking three quotes each time. In terms of future proofing the "Rules" further consideration should be given to strengthening social value and ethical procurement.

Control of Reserves

5.10 Reserves provide the bedrock for financial health of the Council; they serve as the ultimate safeguard to financial health providing time-limited funds to help act as a buffer and mitigate the impact of unforeseen or emergency items. The requirement for financial reserves is set out in regulation; the Local Government Finance Act 1992 requires billing and precepting authorities to have regard to the level of reserves needed for meeting estimated future expenditure, when calculating the budget requirement. In addition, the CFO has a personal responsibility under s25 Local Government 2003, to report on the robustness of estimates and adequacy of reserves at the time Council is setting the budget for the forthcoming financial year.

5.11 It is therefore not surprising that tight controls are in place regarding the use of reserves. Given the overall level of reserves is relatively low at Thanet, a strong control and governance arrangement becomes even more critical. The CFO operates good practice in the way that he assesses and determines the minimum level of balances; and a number of strategic reserves are held for specific purposes. There are a number of observations though to be made around reserve management.

5.12 There does not appear to be any distinct “rules” governing approval for the use of reserves. There is an absence of a requirement for specific approval by either Cabinet or Council once the CFO has signed off. Given drawdown of reserves leads to an increase in the spending control total, they require distinct arrangements from the virement protocols which realign already approved spending.

5.13 There does not appear to be an up to date reserves policy that sets out for each reserve: its purpose, how and when the reserve is used, how long it is needed; management and control of use. In addition, there does not appear to be rolling forecast of future position aligned to the MTFS.

5.14 Feedback indicated that some budget holders would like to create operational reserves set aside from existing budgets to manage peaks and troughs in activity and to smooth annual fluctuations. This is something to be encouraged as it will help support individual service arrangements recognising of course this will be undertaken in the context of corporate responsibility to ensure the financial position is managed overall and is subject to the CFO assessment of overall strategic affordability.

Budget Changes and Virements

5.15 The “Rules” allow the CFO to set out the arrangements for carry forward of under or overspending. Comments were made that there is very little consequence in the event a service does not deliver against budget and consideration ought to be given to implementing these arrangements. Whilst not clear in the “Rules” these would be a budget change that ought to be considered by Cabinet.

5.16 It is not clear from the published corporate reporting whether the budget has changed since its first approval at Budget Council, a statement showing key changes as an appendix would greatly assist transparency.

5.17 Comments were made regarding the financial system and the inability to raise a purchase order where commitments exceed allocated budgets, and a good deal of time is spent reallocating budgets or allocating resource “just in case” it is needed. This is a good discipline to have in place. However, the practice may benefit from a reduced number of codes to streamline processes. This arrangement also tends to bring out unintended underspends as not all budgets allocated will be spent. Some central assessment of these budgets may improve the in year corporate position.

Corporate Reporting

5.18 The formal corporate budget report is reported to Cabinet each quarter having first been considered by the Corporate Management Team. The latest monitoring (Q3) identifies a variance of £5.2m on services although after bringing into consideration government grant and income compensation for COVID, the overall overspend is reduced to £1.7m. The report also provides details of slippage on the General Fund capital programme of £11m, c50%, with similar slippage expected on HRA capital. Minor variances are reported on the HRA business plan. Since the Q3 report was prepared, a number of additional pressures have come to light which will significantly impact the bottom line.

5.19 The report is clear and succinct providing members with key financial information. The report however could be improved by:

- Providing a separate summary of the progress made on approved saving plans.
- Reporting on any movements to budgets.
- Providing an update position on the reserves forecast by the end of the year.
- Assessing the impact of capital slippage on the financing requirement and revenue implications.
- Outlining risks and uncertainties that may impact the position for the remainder of the year.

5.20 The finance team are keen to develop exception monthly reports on key risk areas for CMT, this is good practice as given the current financial uncertainties it enables the officer leadership to collectively maintain oversight on the financial position.

5.21 Most importantly, it is how the report is used to support collective responsibility that will enhance the overall financial health of the Council and ensure corporate grip. From those interviewed, many saw their role as quite passive in how the overall financial position was managed, which was seen primarily as the responsibility of the CFO to manage the bottom line. The report is an opportunity to take an overview of the key issues and risks so they can be considered together and for each Director, in conjunction with their lead member, to develop and contribute to finding a sustainable and workable solution.

5.22 The current and forecast financial challenges facing the Council will inevitably lead to a requirement to deliver new savings and the Council will be faced with making some difficult decisions and strategic choices. It is therefore imperative that the development of savings and progress in their deliverability is incorporated within the corporate report to give clarity of accountability.

Delegated Budget Management

5.23 Those interviewed held the finance team in high regard and valued the support they offered to individual services around managing their budgets. In addition, there was a general sense that the interface between other systems and the general ledger worked well, was accurate and kept up to date. Meetings are held regularly to review the detailed budgets and to consider major variances, with notes of the meeting and key actions captured in a log for follow up.

5.24 Frustrations however were expressed by budget holders of being unable to access finance information in a timely way. In particular, the finance reports are considered as unintelligible and required a finance "eye" to interpret them. Lack of ready access to core financial information such as staffing costs was also cited as an area of frustration resulting in managers feeling as though they were not in control of their staffing plans. Comments were expressed that the process of preparing the budget reports through excel was also quite cumbersome and the finance system ought to be able to produce something as a standard report. Frustration were also expressed that budget holders had to place a great deal of reliance on the finance team rather than being able to prepare their own reports when needed.

5.25 Budget holders also felt they required training on budget management and would like to have a say in how the reports are presented as they have not changed in recent years.

5.26 Given the financial challenges facing the authority, there may be some merit in further training and developing the financial skill set of budget managers and promoting a self-serve model of financial management with the finance team providing strategic financial advice rather than producing spreadsheets.

Internal Recharges

5.27 Nobody likes them. All those interviewed mentioned there are too many recharges. Budget holders were not aware that recharges were set at budget time seeing them as something that happened at year end and took them by surprise. Budget holders did not understand how they were determined and questioned the value for money of recharged services.

5.28 The use of recharges tends to lead to blurring of accountability as attention is diverted away from prime costs that are under the direct control of the budget holder. Budget holders would prefer to focus on prime costs that they can manage and control rather than seeing notional recharges. The practice of recharging should be minimised to the minimum necessary to meet accounting standards perhaps by reducing the number of recharges or reducing the number of cost centres and codes.

5.29 Where recharges are required, it may reduce the surprise factor by setting them at budget time with central over/under recoveries at year end to manage end of year variances, so the variance is managed corporately.

5.30 Recharges should be treated as either controllable or non-controllable by budget holders. Central support costs recharged to General Fund services would be non-controllable as the prime costs of central support should be managed by the relevant director.

5.31 However, clear statements of service provision to give greater visibility for recharges that impact the service bottom line such as HRA, capital and income generating services should be considered.

Capital Programme

5.32 The General Fund Capital programme of £22.6m is expected to underspend by £11.1m, whilst the HRA capital programme of £22m is forecast to underspend by a further £10m. This in essence is about a 50% underspend. This significant underspend is due to slippage where schemes have been included in the Programme but have not yet started.

5.33 From those interviewed, of significance, slippage is due to the way in which schemes are injected into the capital programme and further work ought to be undertaken to determine appropriate phasing and profiling prior to approval by Cabinet and Council.

5.34 Further work perhaps could be undertaken by the Council to consider whether additional capacity in programme management may help with pace and also the development of robust delivery plans to facilitate phasing.

5.35 Member oversight of the capital programme may be improved through the preparation of final cost reports that summarise the full cost of the project and key variances from approved allocations.

5.36 Of particular concern, the revenue implications of the Capital Programme will be factored into the Budget Strategy and MTFS. Given the extent of slippage, this will mean the budget for financing costs is at too high a level and will increase the budget gap perhaps unnecessarily. Consequently, there is an imperative to ensure a realistic capital programme position is maintained.