

Interim Auditor's Annual Report on Thanet District Council

2020/21, 2021/22 and 2022/23

September 2023

Consultation Draft



Contents



We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting, on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Executive summary



Value for money arrangements and key recommendation(s)

	No significant weaknesses in arrangements identified or improvement recommendation made.
	No significant weaknesses in arrangements identified, but improvement recommendations made.
	Significant weaknesses in arrangements identified and key recommendations made.

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Auditors are required to report their commentary on the Council's arrangements under specified criteria. 2020/21 was the first year that we reported our findings in this way. The NAO have issued guidance to auditors which states that a commentary covering more than one financial year can be issued where it is more efficient and effective to do so. We have reported a combined commentary on the Council's arrangements for 2020/21, 2021/22 and 2022/23 as this provides a current position of the arrangements in place and enables the Council to take timely effective action. If our findings relate only to one year this will be clearly stated, where we do not refer to a year it covers all years. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our conclusions are summarised in the table below.

Criteria	Risk assessment	2020/21 Auditor Judgement	2021/22 Auditor Judgment	2022/23 Auditor Judgment	Direction of travel	
Governance	Risk identified in the 2020/21 Plan due to complex grievance issues apparent in 2019/20 requiring external support. Our work identified that weaknesses in governance arrangements at the top tier of the Council were apparent in all years. Improvements were made by 2022/23 to suggest however until these are fully embedded there is no evidence to suggest the weaknesses have been eradicated.		Two significant weaknesses in arrangements identified and two key recommendation made as a result. Two further improvement recommendations made.		Two significant weaknesses in arrangements identified and two key recommendation made as a result. Two further improvement recommendations made.	↔
Improving economy, efficiency and effectiveness (3E's)	No potential risks of significant weakness were identified within our Audit Plan, however potential risks became evidence around project management and performance reporting in the course of our work. When investigated in 2020/21 both provided evidence of weaknesses in arrangements and were therefore considered risks for subsequent years.		Two significant weaknesses in arrangements identified and two key recommendation made.		One weakness in relation to performance monitoring addressed. One significant weakness in arrangements remains and one key recommendation made.	↔
Financial sustainability	Risk identified in the 2021/21 Plan because of the Council's comparatively low level of reserves when compared to other Kent District Council's. Our work in 2020/21 did not identify a weakness and therefore no risk, at risk assessment stage, considered relevant for 2021/22 or 2022/21. We did identify a weakness in reporting arrangements for outturn and budget monitoring which was not identified as a risk due to no issues prior to or within 2020/21 being evident.		No significant weakness identified, five improvement recommendations made.		One significant weakness in arrangements identified and eight improvement recommendations made.	↓

Executive summary



Governance

Council-Wide Governance and Transparency

Following our 2019/20 Value for Money work statutory recommendations were raised to the Council as a result of poor governance arrangements concerning the ability of senior officers to work together and make decisions for the benefit of the Council. This resulted in inadequacy of, and non-compliance with, policies and in relation to whistleblowing, grievances and disciplinary actions and the ultimate financial impact of each of these issues. One of the statutory recommendations included a requirements to undertake a review by an Independent Monitoring Officer (IMO). The Council developed an action plan to the statutory recommendations and engaged an IMO immediately, this produced further recommendations and a separate action plan. By the end of 2022/23 the actions in both plans are substantially completed with the exception of a people strategy and behavioural framework being developed and training in relation to those frameworks having been undertaken to address the recommendations related to improving member and officer relationships. The Council has elected new members in early 2023/24 and undertaken a restructure of its senior management team which is due to complete when all staff are in post by October 2023. It is expected that the remaining points will be addressed when this restructure is complete so incoming officers can be included. Therefore, there is sound rationale for the Council's judgement to pause this element of the plan.

The statutory recommendations and IMO findings were indicative of a weakness in governance arrangements in the years they relate to, 2020/21 and 2021/22. Although a strong progress in producing, monitoring and substantially responding to the recommendations has been observed in 2022/23, until the action plans be fully completed and there is evidence the updated arrangements are well embedded following the management restructure a weakness is apparent in 2022/23 also. As such we have raised a key recommendation aimed at addressing this weakness going forwards, see page 10.

Service Level Governance

Whilst governance arrangements at the top tier of the organisation have improved, governance arrangements within individual service lines are an area of concern. As noted there has been an increasing number of Limited and No Assurance Internal Audit reports in 2021/22 and 2022/23 and low confidence in corporate governance arrangements in all three years, as a result of the council-wide issues and the individual Internal Audit reviews each year. A common casual theme has been a lack of underlying policies, procedures and compliance. As such we believe there to be a weakness in the standards of several services due to the lack of underlying governance and have raised a key recommendation in this area on page 11.



Executive summary



Governance

Risk Management

The Council has reviewed and updated its Risk Management Strategy in 2022/23. Under both the old and updated strategies members focus their attention on the highest rated risks from Corporate Risk Register, however transparency has increased in the period and the number of risks being reviewed has increased. Developments in risk management are taking place regularly and iterative improvements are seen throughout the three-years covered by our reporting. We have made some improvement recommendations aimed at ensuring best practice is achieved in this area.

The Council is well supported by the Internal Audit function, which is provided by East Kent Audit Partnership, which is evidenced via their fair and open reporting to members in relation to their reviews. This has led to an increasing number of Limited and No Assurance rated reviews over the period as the function ensure they provide an objective view of the Council's services. There is evidence as the three-year period has progressed of Internal Audit, Members and the current Chief Executive and Section 151 Officer working closely together to respond to findings and a good level of communication has been observed. This is an improvement noted since the 2019/20 year. Although positive relationships and regular detailed reporting have been observed the Council should now seek a review of the function against the Public Sector Internal Audit Standards, required every 5 years, to provide assurance to the Council over the effectiveness of the service to ensure compliance with this requirement.



Executive summary



Improving economy, efficiency and effectiveness

Performance Reporting

It is an expectation that members, as decision makers, receive information on and pay equal attention to the non-financial performance of the Council as well as financial. The two are directly correlated. It was noted that in 2021/21 Cabinet did not receive any reporting in relation to the non-financial performance of the Council and therefore did not have the required information with which to make decisions to target underperforming services, or learn from services that were performing well. This has been badged as a significant weakness in arrangements and a key recommendation raised on page 12.

At the start of the 2021/22 year the Council introduced a live tool which monitors operational performance across a number of Key Performance Indicators (KPIs) which was made available, and remains available, on the Council website. This is a significant improvement and addresses the weakness in 2020/21 as the information is available publicly, however there was still no reporting on a summary basis to members. This has since been rectified in 2022/23 at members' request. We believe further improvement could be made to this reporting to ensure the actions being taken in relation to underperforming areas is clear, can be monitored and responsible individuals can be held accountable and that there is effective monitoring of, not only Council performance, but that of key partners the Council works with.

When looking at Council performance reporting and financial information provided to central government it is clear that homelessness is a key area of pressure for the Council. This is a demand led service, over which the Council has limited control. However, it is also an area of high cost and therefore there is the opportunity for the Council to address the supply, rather than demand, aspect of the service. The Council has begun to take positive action to reduce unit costs converting a disused Council-owned building into temporary accommodation to reduce the costs of using private sector provision. This work was shortlisted for an industry award due to its successes and therefore the Council is now seeking to extend projects of this kind to reduce costs and respond to demand at the same time.

Project and Contract Management

During the course of the investigations by the Independent Monitoring Officer, noted in the Governance section previously, the investigator became aware of several concerns in relation to a key capital project on berths 4 and 5 of the Ramsgate Port and therefore recommended that a detailed review into the project took place. A post-implementation review by internal audit identified failings in the Council's project management processes in relation to this project and more widely within the Council. The report was provided in March 2023 and therefore there has been limited time with which to fully respond to the findings. The findings of the report and the fact that a key piece of governance, a Project Management Framework, have not been in place we believe there to be a weakness in project management arrangements and have raised a key recommendation in response. See page 13 for further details of the weakness and recommendation raised.

Executive summary



Improving economy, efficiency and effectiveness (continued)

Project and Contract Management

An objection was raised concerning the same project and our investigations into the specific issues raised has not identified the need for a Public Interest Report (as requested in the objection) or unlawful decision making, and therefore the weakness is limited to the underlying project management governance arrangements and expertise.

Internal Audit have also undertaken a review on contract management which has highlighted an emerging potential fraud issue. The issue was highlighted by whistleblowing to the Internal Audit function and was not identified by the performance or contract management arrangements in place for this particular contract. The issue is currently being investigated and the Council is encouraged to undertake a wider review across more contracts to understand if the issues are more pervasive. As contracts are a key part of any project this is linked to the weakness identified in project management arrangements on page 13.



Financial sustainability

Outturn Position and Reporting

The Council reported its 2020/21 outturn position to Cabinet in July 2021 and this confirmed a deficit position of £3.6m as a result of the pressures of responding to the pandemic, such as in relation to car parking income, and other non-Covid-19 related issues such as legal costs associated with disciplinary matters and revenue cost overspends in relation to the Berth 4/5 project. Risks have been recognised elsewhere in relation to the non-Covid related issues. The 2020/21 accounts production was delayed, however these have since been produced and audited with the anticipated outcome being an unmodified opinion, which provides some certainty over the accuracy of this position.

Members have not received an outturn report for 2021/22 or 2022/23 nor have draft accounts for these been published, and subsequently audited, and as such there is limited certainty in relation to the financial positions in these years with which to help members make financial decisions. It is estimated that in 2021/22 the Council made a £1.1m surplus and in 2022/23 made a £1.99m deficit. The reason for the lack of reporting has been a result of capacity within the Finance Team, particularly at the senior level, due to the impact of departure of statutory officers amid the governance issues highlighted previously. This has caused senior finance staff to have to undertaken multiple roles at the top level of the Council and hindered the ability to produce the usual reporting.

Quarterly budget monitoring has also been impacted and members have not received a budget monitoring report since quarter 2 of 2022/23. Members are due to receive the 2022/23 outturn report alongside the 2023/24 quarter 1 report in September 2023. As there is a significant time lag between the date the information relates to and the time of reporting this reduces the reliability of the decisions that can be based on this. A weakness and key recommendation has been raised, see page 14, due to the lack of reporting and time-lag in the information, should the required improvements not be evident as planned in September 2023 further escalation of the issue via a more serious statutory recommendation is anticipated.

Executive summary



Financial sustainability (continued)

Reserves and Savings

Despite the estimated deficits in 2021/22 and 2022/23 which has been met from reserves the Council has been able to increase its earmarked reserves from a historical low in 2015/16. The Council medium term financial planning includes a gap over the next 4 years of £5.8m. The plans already include savings and therefore, currently, if the gap is left unaddressed would cause additional pressure of reserves and potentially divert them away from the purposes they were set aside for. The Council, at current estimates, does have sufficient reserves, however it has also identified a series of risks in its medium term planning which could increase reliance on these further. Reserves are a finite resource which protect the Council against future unbudgeted for risks, and so the Council should seek to increase the timeframe and scope upon which it plans savings, explore opportunities for greater income generation and look into alternative options to respond to the medium term gap as a priority to avoid depletion of reserves.

As well as increasing the scope and time frame when planning savings the Council would also benefit from more detailed oversight of savings schemes to allow members to hold officers to account and actions to be taken in advance of year end where slippage is noted. This is considered an area of improvement and is noted as such in the report.

Budget Setting Process

The Council approves its budget in February each year, ahead of the start of the financial year. The process for developing and approving the budget is well understood and established. Improvement has been seen in the setting of the final 2022/23 and 2023/24 budgets, compared to prior years, in that a 'Budget Prioritisation' process has been implemented which involves greater collaboration between service leads, finance and members and a greater level of challenge on proposals which are developed at service level. This is a move away from the top-down approach led by the Corporate Management Team and the Director of Finance observed in prior years and increases the probability of achieving the budget due to more realistic estimates, consideration of operational viability and greater buy in from services. There are still further improvements that could be made in the budget setting process which have been raised as improvement recommendations, these are aimed at achieving best practice as opposed to taking corrective action.

Executive summary



Financial sustainability (continued)

Capital Programme

The Council's capital programme has increased significantly between 2021/22 and 2023/24, from £18.5m to £55m. This is due to successful bids for additional central government funding for Town Deal and Levelling Up Fund projects. A report from external consultants in 2020/21 highlighted that the Council had a poorly profiled capital programme and slippage has been seen each year. Some of the slippage is due to poor project management which remains a concern and a weakness in arrangements raised. The Council has engaged a project management expert to assist in some ongoing projects and they have assisted in reprofiling the programme based on their own detailed analysis, the Council should now and is now seeking further project management support and this will be vital in enduring that the programme remains correctly profiled and deliverable. The funding gained from the Town Deal and Levelling Up Fund has conditions attached which include that it should be spent on projects by March 2025, the slippage in the capital programme suggests a delayed start to many of these projects due to the underlying project management issues and lack of capacity and framework in place. Steps are now being taken to engage external support to respond to the lack of capacity, the framework is still in development and the Council has joined a pilot scheme which extends the deadline to March 2026.

Key recommendations



Governance

The range of recommendations that external auditors can make is explained in Appendix C.

Key Recommendation 1

Council Wide Governance and Transparency

Reports from Grant Thornton and an Independent Monitoring Officer (IMO) covering the period from 2019/20 to 2021/22 highlighted a series of governance issues at the Council in this period, including the below, and raised several recommendations between these reports to rectify the significant weaknesses identified in arrangements:

- Inability of the management team to work together in a way that optimises effectiveness and builds a healthy management culture, in the best interests of the Council
- A high number of grievances raised formally and by whistleblowing and subsequent disciplinary action, some against senior officers
- This highlighted that the policies and procedures in place to manage such issues were inadequate
- A financial impact as a result of these issues

The above is indicative of a weakness in arrangements in 2020/21 and 2021/22.

In 2022/23 the key statutory officers of the Council, who were at the heart of concerns around culture and inability to work together, have left and a restructure is nearing completion. The Council has put in place an action plan to respond to the concerns from the reports and has substantially completed these, with those areas still in progress due to the fact that all new senior officers are not yet in post. The remaining response required to fulfil the action plan relates to implementation of the people strategy, behavioural framework and training in these areas which require all new officers to be in post. This is expected by October 2023. We have also seen improvements in the transparency of information that is being provided to members to aid them in their decision making. There is no further evidence of widespread whistleblowing or grievance procedures.

Internal Audit have determined their to be low confidence in corporate governance between 2020/21 and 2022/23. With the caveat that in 2022/23 this is due to the fact that newly implemented governance improvements have not yet had time to embed.

Therefore, although substantial improvement has been made in Council-Wide arrangements a weakness remains in 2022/23 as the action plan to respond to the Grant Thornton and IMO reports is yet to be fully complete pending new senior officers being in post as part of the Council restructure. Therefore our key recommendation is that, following completion of the Council senior management restructure, the Council should prioritise developing the people strategy, behavioural framework and evidence of training on these key foundational frameworks so that they can be implemented as soon as all staff are in post, with no lag, so they can be mobilised and having the desired impact immediately.

Audit years

2020/21, 2021/22 and 2022/23

Why/impact

Robust governance arrangements are the backbone of an organisation and allow it to make effective decisions for the benefit of the staff and residents the Council serves.

Management Comments

We welcome that GT have identified substantial improvements here and we will look to prioritise these workstreams now that all new Heads of Service have been appointed.

Key recommendations



Governance

Key Recommendation 2

Service Level Governance

The Council has received several Limited and No Assurance rated reviews from Internal Audit in 2021/22 and 2022/23, and due to the retrospective nature of these reports are indicative of arrangements in 2020/21 also. Although improvements have been observed in governance arrangements at the top tier of the organisation as a result of responding to the recommendations within the IMO and Section 24 reports, individual services' governance still appears to be a challenge due to:

- a significant increase in the number of no assurance reports in both 21/22 and 22/23
- across a range of operations/services and so suggest pervasive issues
- a common theme being a lack of underlying governance arrangements, such as policies and procedures leading to risk of non-compliance
- a significant increase in the number of critical and high priority recommendations escalated to Governance and Audit Committee not addressed as expected in the time expected
- a lack of engagement from management in some directorates with Internal Audit recommendations
- evidence of lack of governance arrangements, specifically in Corporate Priority areas
- evidence of lack of improvement in some services over a sustained period

Key causal themes noted in relation to the service level governance issues was a lack of capacity of staff, with many undertaking dual roles as a result of staff departures, and a lack of robust policy and procedure documentation to ensure compliance. Service levels are unaffected but lack of underlying governance arrangements are a pervasive issue a cause of the weakness identified.

It is expected that the completion of the Council restructure in 2023/24 should have a positive impact on capacity. Increasing capacity of services, particularly where Limited and No Assurance ratings have been received and relate to Corporate Priorities, should be an urgent priority. It would be beneficial if the individuals recruited were experienced in developing and monitoring the required underlying governance arrangements in each service.

Audit years

2020/21, 2021/22 and 2022/23

Why/impact

Robust governance arrangements are the backbone of an organisation, and the individual services within it, and ensure that these service are run in an effective and compliant manner.

Management Comments

We note GT's findings here and will look to prioritise these workstreams now that all new Heads of Service have been appointed.

Key recommendations



Improving economy, efficiency and effectiveness

Key Recommendation 3 Performance Reporting

There were no performance reports taken to Cabinet during 2020/21. This is a weakness due to the fact that:

- decision makers at the top tier of the organisation are not cited on performance
- there are red rated areas of performance that are far from target left unaddressed at the top level of the organisation as a result
- there is a significant time lag between when the data is related to when it is received impacting its usefulness in decision making
- there is no clear mechanism for Overview and Scrutiny Committee to raise performance issues by exception since there is no escalation of the performance to Cabinet noted
- the objectives being reported against are outdated (using the Corporate Statement from 2015-2019 when reporting in the 2020/21 year)

Steps should be taken to formalise, and monitor with sufficient regularity, the performance of the organisation.

Audit years

2020/21

Why/impact

Performance reporting is a vital tool in allowing the Council to assess if it is successfully meeting its corporate objectives and therefore it should be reviewed with sufficient regularity, in a timely manner and sufficiently detailed to allow this assessment to be made.

Management Comments

Performance reporting is now being taken on a regular basis, but we acknowledge these findings and will ensure that work continues here.

Key recommendations



Improving economy, efficiency and effectiveness

Key Recommendation 4 Project and Contract Management

As a result of the Internal Audit review of the Berth 4/5 project, recommendations were made and there is not yet sufficient evidence to confirm the recommendations have been implemented in relation to new and ongoing capital projects within the significantly increased capital programme.

The Council should strengthen project management and contract management arrangements by:

- seeking additional support from project management experts across more projects to ensure there is the required capacity and expertise and limit further delays
- prioritising developing and training on the new project management framework as projects are currently ongoing without the underlying governance yet in place

Ongoing Internal Audit work in relation to Contract Management has led to further investigations into the accuracy of the costs being paid by the Council under these arrangements and potential overpayments. The investigations in relation to contract management issues lead us to raise the following points since contracts are a key element in the capital projects that the Council undertakes the two are directly linked. The Council should prioritise:

- developing and implementing a contract management framework which includes performance monitoring. This will ensure that all contracts, contractors and projects can be effectively managed without reliance on external contractors doing this on the Council's behalf - this would be a proactive control to ensure underperformance (or overpayments) were identified prior to the Council incurring a cost
- implementing a second layer of control by undertaking post completion reviews and inspections of works by contractors on projects so that a retrospective control is in place to identify any under-performance or potential overpayments, these reviews are rare with only Berth 4/5 as an example
- reviewing all contracts to identify similar overpayment failings, implement required controls and seek compensation as required.
- reviewing all contracts to ensure that any threats and risks to effective arrangements are removed
- ensuring effective escalation mechanisms are in place internally within departments to ensure that issues raised in relation to projects and contracts can be dealt with in a timely manner, removing the need to whistle blow

Audit years

2020/21, 2021/22 and 2022/23

Why/impact

In order to avoid repetition of the issues causing time delays and cost overruns highlighted from review of the Berth 4/5 project the Council should seek to immediately apply the lessons learned. The lack of underlying governance arrangements which need to be rectified also apply to the contract arrangements within each project.

Management Comments

We note GT's findings here and can confirm that work has already begun to implement improvements in these areas.

Key recommendations



Financial sustainability

Key Recommendation 5 Outturn and Budget Monitoring Reporting

Members have not received reporting on the 2021/22 and 2022/23 outturn position or quarterly budget monitoring since December 2022, this covers both the revenue and capital positions. Nor has the Council been able to produce and publish the financial statements for these financial years either. This is due to lack of capacity within the finance team at all levels and is expected to be rectified from September 2023 onwards. Where budget monitoring information has been presented, or is expected to be received, there is a significant time-lag. A similar timing issue also exists within the Council's treasury performance reporting. This is deemed a weakness in arrangements as it does not provide members with sufficient information with which to make reliable, effective and up to date financial decisions. Therefore, the Council should ensure the following to improve the weaknesses identified:

- budget monitoring is reported each quarter and a year-end outturn report which allows members to make financial decisions effectively
- budget and treasury monitoring information should be presented to members in a timely manner with no more than a 2-month time lag between the date of information and the date of reporting to ensure reliable decisions can be made on up-to-date information

Audit years

2021/22 and 2022/23

Why/impact

Members, as the decision makers of the organisation, currently have a gap in their knowledge as to the true financial position of the Council as a result of the lack of reporting of year end outturn position for two years running. As such their ability to make financially sustainable decisions may be impaired as they do not have the information available to identify the financial impact of their decisions. Should the required improvements to transparency of the financial position not improve we would be required to escalate the issue further, via a more serious statutory recommendation, as there would be no evidence to confirm the Council remained financially viable.

Management Comments

We note GT's findings here and will ensure that future reporting is more timely.

Use of auditor's powers

We bring the following matters to your attention:

	2020/21	2021/22	2022/23
<p>Statutory recommendations</p> <p>Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly</p>			Statutory recommendations were made in October 2021 as a result of the 2019/20 VFM work and so are relevant to all years covered in this report. See pages 39 to 41 for details of the recommendations made. These have been followed up as part of our work. We consider the points to have been substantially addressed in the 2022/23 year but a weakness remains until the senior management restructure completes in October 2023 and our key recommendation reflects this.
<p>Public Interest Report</p> <p>Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.</p>	We have not issued any such reporting	We have not issued any such reporting	We have not issued any such reporting
<p>Application to the Court</p> <p>Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.</p>	We have not made any such applications.	We have not made any such applications.	We have not made any such applications.
<p>Advisory notice</p> <p>Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority:</p> <ul style="list-style-type: none"> is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure, is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or is about to enter an item of account, the entry of which is unlawful. 	We have not issued any such notices.	We have not issued any such notices.	We have not issued any such notices.
<p>Judicial review</p> <p>Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.</p>	We have not made any such applications.	We have not made any such applications.	We have not made any such applications.

Securing economy, efficiency and effectiveness in the Council's use of resources

All Councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council's responsibilities are set out in Appendix A.

Council's report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:



Financial Sustainability

Arrangements for ensuring the Council can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).



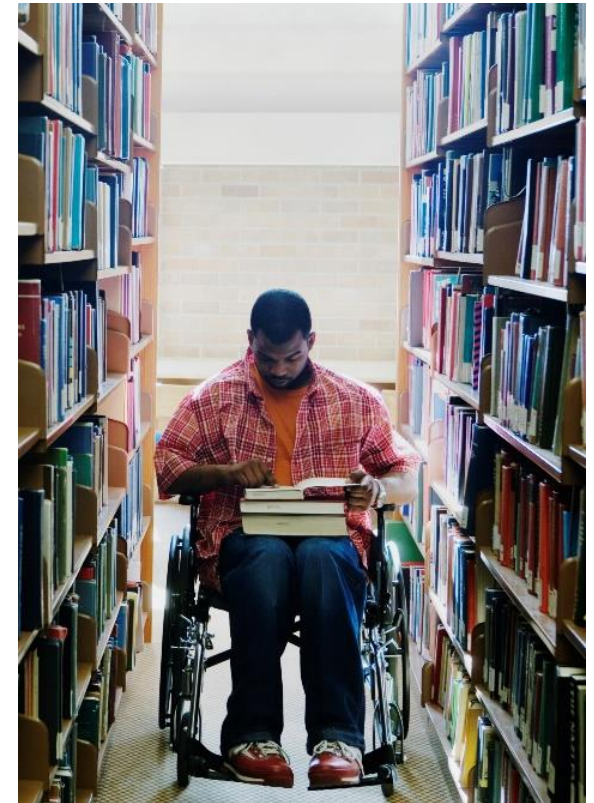
Governance

Arrangements for ensuring that the Council makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the Council makes decisions based on appropriate information.



Improving economy, efficiency and effectiveness

Arrangements for improving the way the Council delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Our commentary on the Council's arrangements in each of these three areas, is set out on pages 17 to 43.

Governance



We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effective processes and systems are in place to ensure budgetary control; communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and board member behaviour (such as gifts and hospitality or declaration/conflicts of interests) and where it procures and commissions services.

Council Decision Making and Appropriate Standards

During our 2019/20 Value for Money work we became aware of governance issues relating to the conduct of senior management and reported these to members in July 2021 via a letter. We undertook additional work in relation to governance to understand the issues more deeply and this resulted in a Section 24 notice being released in October 2021 to raise our significant concerns. We found that there was an inability of the management team to work together in a way that optimised effectiveness and built a healthy management culture, in the best interests of the Council, due to a breakdown in relationships between those officers.

This then resulted in a number of grievances raised formally, and by whistleblowing, and some of which concerned those senior officers indicating that their behavior had fallen below expected standards on several occasions and casts serious doubt over the appropriateness of tone from the top of the organisation. Subsequent disciplinary action highlighted that the policies and procedures in place to manage such issues were inadequate.

The Section 24 notice raised four recommendations we felt were required to rectify the issues identified. One of those recommendations was that the Council should engage an Independent Monitoring Officer (IMO) to investigate the issues further and produce a report which would enable the Council to learn lessons from the evidence and themes collated. The Council acknowledged the severity of the findings and immediately engaged the IMO following the release of the Section 24 notice.

The final IMO report reviewed arrangements retrospectively to December 2021 and was released in May 2022, the themes around senior officer behaviour, mis-handling of grievances and ineffective decision making culture concurred with our own work and nine further recommendations were made to improve member and officer relationships, transparency, senior officer restructure, training of members and officers and review of a specific project impacted by poor decision making under previous arrangements.

During this time Internal Audit continued to provide their Annual Report and Opinion, one area they comment on specifically each year is in relation to Corporate Governance. For 2020/21, 2021/22 and 2022/23 this stated that there was low confidence in this area of arrangements. Therefore it is clear that there was a weakness in governance arrangements related to decision making and maintaining appropriate standards as a result of the outcomes of these reports (*Key Recommendation 1*).

In the meantime, between October 2021 and June 2022, the four senior officers at the heart of the issues identified left the Council through various means including mediated talks, dismissals and suspensions (one of which was later revoked with public apology). Their positions were filled with a combination of interim staff, promotions from within the organisation and a new Chief Executive with a wealth of public sector and local experience. We note that due to the Chief Executive's success in supporting the Council to respond to these reports that it was unanimously agreed to extend his interim appointment until at least July 2024 to assist in embedding the arrangements that have been implemented.

The Council quickly mobilised action plans to respond to the recommendations within the Section 24 notice and the IMO report.

This has been monitored by the Corporate Management Team and shows evidence of actions being taken immediately in many cases and was reported to members at Cabinet in March 2023 to ensure they were made aware of progress. At that date the actions contained within both plans were substantially implemented. The Council has initiated a restructure at Senior Officer level and this was approved by members in January 2023. Recruitment began in March 2023 with all officers expected to be in post by October 2023, as this recruitment process was finalised early in 2023/24. The recommendations from the action plans yet to be completed centre around updating the constitution, developing a people strategy, developing a behavioural framework and evidence of training on each of these policies.

Governance

Council Decision Making and Appropriate Standards (continued)

We have seen evidence of the Constitution being updated in July 2023 and accept that the decision to pause the finalisation and training of these key people policies until the senior officer restructure has been completed is a sound judgement to ensure that new officers undertake the requirements of these policies with immediate effect, however finalising these policies so they can be mobilised as soon as all officers are in post should be a priority **(Key Recommendation 1)**.

Internal Audit's Annual Report for 2022/23 continues to express low confidence in Corporate Governance arrangements, however this includes the caveat, for the first time in the three-year period, that this is due to the fact that arrangements have not yet embedded and does note the positive action taken to respond to the issues raised in previous years. Our conclusions are consistent with this sentiment.

Matters linked to the disciplinary issues in years covered by this report have been reviewed again following a whistleblowing in 2023/24 and further investigations are ongoing. We will consider the impact of this as part of our 23/24 work.

Service Level Governance

As well as providing an overall opinion across Corporate Governance, Risk Management and Internal Control Internal Audit report quarterly and annually on individual service reviews included in their Audit Plan. They provided ratings on scale where Limited Assurance and No Assurance are the most significant ratings denoting poor performance and tend to generate critical and high priority recommendations for the Council to respond to make the required improvements to arrangements. The Council has experienced an increasing number of Limited and No Assurance ratings between 2020/21 and 2022/23, and therefore while improvements have been noted in governance at the top-tier of the organisation attention now needs to be focused on arrangements within individual services. To provide some context in relation to the No Assurance rated audits there were no such results in 2020/21, one in 2021/22 and increasing significantly to six reviews with this rating in 2022/23. In addition Internal Audit escalate to the Governance and Audit Committee any high and critical priority recommendations that are unaddressed by the Council, in 2020/21 there were no such escalations, in 2021/22 there were 18 and in 2022/23 there were 35.

Within the results there are some specific services of concern, one of which is the Street Cleansing service. The 2019 Internal Audit review of this service was of Limited Assurance and when followed up in 2021/22 the rating had not improved. This was reviewed in full as a stand-alone exercise in 2021/22 with the rating worsening to No Assurance. This service is a specific Corporate Priority within the Council's Corporate Statement and so is seen as vital to the success of the Council meeting its objectives. A follow up did not improve the result until a second follow up review was undertaken and reported an improvement to Limited Assurance at the end of 2022/23. Key issues identified in this area were related to a lack of timely progress of action plans, issues not being prioritised by senior management, high turnover of staff in the service causing a lack of continuity and capacity and a lack of underlying governance such as performance monitoring and compliance with regulatory Codes.

The Street Cleansing service is one example, however we believe there to be a more pervasive issue in relation to meeting appropriate standards due to:

- the significant increase in the number of No Assurance reports since 2021/22
- the ratings being associated with a range of services and operations and therefore not an isolated issue
- the significant increase in the number of critical and high priority recommendations escalated to Governance and Audit Committee
- lack of engagement from management in certain directorates with No Assurance reports due to lack of capacity
- continuing evidence of failures in Corporate Priority areas (Litter Enforcement)
- lack of improvement in some services over a sustained period (East Kent Opportunities recommendations repeated from 2018 are repeated in the 2022/23 review)

Overall, across the three-year period Internal Audit have not demonstrated an adverse opinion in relation to Internal Control or Risk Management. Therefore, the decline in service level performance has been captured via the low confidence expressed in Corporate Governance in all three years and so suggests a weakness in each year.

Governance

Service Level Governance (continued)

This is due to the fact that a key theme within the Limited and No Assurance rated services is a lack of underlying governance arrangements such as the creation, updating and adherence to key policies and procedures. We note that level and quality of service has not been raised as a recurring issue.

Throughout our work capacity of teams has been noted as a challenge at the Council, some of which has been created by the departure of senior officers and the need for remaining officers to undertake dual roles until the restructure is complete in October 2023. Another factor has been that the Council reviewed vacant posts as part of the 2022/23 budget setting process and removed these, it has since been noted that some services have been left at low capacity and additional budget for the most impacted teams to restore these posts has been included in the 2023/24 budget. Increasing capacity of services, particularly where Limited and No Assurance ratings have been received and relate to Corporate Priorities, should be an urgent priority. It would be beneficial if the individuals recruited were experienced in developing and monitoring the required underlying governance arrangements in each service [\(Key Recommendation 2\)](#).

Risk Management

The Council's approach to identifying, monitoring and reporting risk is set out in the Risk Management Strategy 2019-23 which was approved by the Governance and Audit Committee at its meeting on 6 March 2019. The Strategy was updated in 2022/23 and so are satisfied the committee is fulfilling their role of keeping the framework up to date and fit for purpose. We would expect a key strategy such as this to be updated every 3-5 years or when any significant changes occur in the operating environment and so the Council are within this expectation.

As per the Strategy the Corporate Management Team oversaw a quarterly process of updating detailed operational risk registers throughout the three-year period and escalated top-rated corporate risks to the Council's Governance and Audit Committee. In both 2021/22 and 2022/23, at the request of the Committee for greater risk oversight, the Council reduced the score above which risks were escalated to the Committee compared to the prior year. Although this demonstrates positive improvement towards increased risk oversight, we believe that the Committee would benefit from reviewing the full strategic risk register to allow review and challenge of lower rated risks which may need updating. In addition we note that there is no escalation of risks to Cabinet, it is good practice for the top-tier of the organisation to be aware of the risks being faced and the risk appetite in order that this can inform key decisions and ensure these are made in line with agreed appetite.

The approach of escalating risks from operational risk registers does mean that there are examples of risks which are not necessarily strategic in nature, and more operational, being reviewed by the Committee such as building legislation, watercraft and burial related risks. More examples have become apparent as the threshold for escalation has decreased. We would expect the Governance and Audit Committee to focus their attention on only those risks which have potential to impact the Council's ability to meet its strategic objectives.

A by-product of the reduction of the threshold for escalation is also an increasing number of risks being reviewed by the Committee, this has reached 29 in total. We would suggest that the optimum number of strategic risks for the Committee to review for a District Council such as Thanet would be between 10 to 20 to allow members to undertake meaningful discussion on each and ensure they are only those strategic risks. Despite the increasing number of risks there is a good level of discussion and challenge from members in relation to the risk register and this is well supported by presentation from the Director of Finance and narrative in the report to highlight changes in risks each quarter.

The Council's Internal Audit team concluded a review of risk management arrangements in May 2022 and provided "Reasonable Assurance" on risk management arrangements overall but noted that risk reports to the Governance and Audit Committee lacked detail. As the format of the risk register being presented to the Governance and Audit Committee has developed and improved over the period more detail has been included to help members evaluate risk. There are some minimum standards we would expect to be met in an effective risk register as below, we believe the current format to fulfil each of these requirements, with the exception of a clear mapping to the relevant corporate objective.

- relevant key controls and sources of assurance are set out
- they are RAG-rated, including impact and likelihood
- they are mapped to corporate objectives
- they are allocated to a responsible senior officer
- direction of travel for each key risk is provided

The Council may consider continuing to make iterative improvements to the format of the risk register it presents to members to ensure they have a full suite of information to help aid decision making including mapping risks to corporate objectives, assigning a target risk score to each risk and demonstrating the current score before and after mitigating actions to help assess how successfully the Council is managing each risk.

Governance

Risk Management (continued)

The Annual Report from Internal Audit provides commentary on Risk Management each year in determining their overall opinion, in each year no issues have been noted with procedures and positive opinion given in this respect.

Our findings in relation to risk management have culminated in an improvement recommendation (**Improvement Recommendation 1**) covering several factors identified, including improvements to:

- Distinguishing between strategic and operational risk
- Reviewing the number of risks in the strategic risk register
- Ensuring oversight of all strategic risks by the Governance and Audit Committee with sufficient regularity
- Ensuring annual oversight of strategic risks by Cabinet
- Ensuring the strategic risk register includes sufficiently detailed information to aid decision making

Internal Audit

Internal Audit services have been provided by East Kent Audit Partnership (EKAP) throughout the three-year period, under a shared services arrangement, for which the other Councils are Canterbury, Dover and Folkestone. They report progress on their work to the Governance and Audit Committee sufficiently regularly (quarterly) and ensure that they follow up their reviews in a timely manner to be able to provide assurances on whether the Council have effectively responded to recommendations. There is evidence that the Council has been well supported by the function across the period due to them developing an audit plan in each year which has sufficient coverage of a range of the Council's operations and services. The ability of EKAP to complete the planned audits was hindered in 2020/21, in particular, with 77% of the planned work completed. Audits were deferred and in each subsequent year there has been improvement in completion of the plan, with 91% in 2021/22 and 103% in 2022/23 (due to deferrals and additional days added after the plan was initially approved. EKAP have been able to sufficiently complete the Plan in each year, despite the impact of the pandemic on resourcing and availability of Council staff, to be able to provide a robust opinion each year. In addition completion of the plan is included in the metrics Internal Audit monitor themselves against in performance KPI's to demonstrate their effectiveness to the Governance and Audit Committee.

The Public Sector Internal Audit Standards (PSIAS) expect that the Council conducts an external review every five years to provide assurances on the compliance of the Internal Audit function against the PSIAS's. Internal Audit complete a self assessment against the standards each year. There is, however, currently no appetite with the Client Officer Group to undertake an External Quality Assessment of Internal Audit's level of compliance, relying on a review by the Director of Finance of the self-assessment which is informal and not presented to members (**Improvement Recommendation 2**).

The Committee considers the effectiveness of the internal audit arrangements by reviewing the quality of reports, actions and follow-ups through the quarterly reports submitted during the year to the Committee. We have reviewed these documents throughout our work, reviewed minutes and attended the committee itself with no issues raised in relation to the Internal Audit function. The year end reporting notes that The EKAP self-assessment of the level of compliance against the Public Sector Internal Audit Standards shows that some actions are required to achieve full compliance which EKAP will continue to work towards. There is, however, currently no appetite with the Client Officer Group to undertake an External Quality Assessment of the EKAP's level of compliance, relying on a review by the s.151 officers of the self-assessment which is informal and not presented to the Governance and Audit Committee.

We note that the Internal Audit function embodies appropriate principles and prioritises 'doing the right thing' as evidenced by the increasing number of Limited and No Assurance reviews and associated critical and high priority recommendations aimed at improving the Council's arrangements for the benefit of its staff and service users.

It is the follow-up and fair reporting approach that has been vital in highlighting pervasive challenges in governance arrangements across services, currently, and at the top tier of the organisation in prior years. Internal Audit's willingness to highlight low confidence in Corporate Governance in their annual report in 2020/21, and in each year since, led to an attempt to initiate disciplinary procedures against the Head of Internal Audit. These were not followed through and the Internal Audit function has continued to act independently and professionally. Following changes in the Council's statutory officer structure we have observed strong collaborative relationships between the Head of Internal Audit, the Director of Finance, the Chief Executive and members which is built upon open, honest and regular communication and a common purpose to meet the Council's objectives.

Governance

Conclusion

Our Audit Plan for 2020/21 noted a risk of significant weakness in governance arrangements in relation to grievances and concerns. We reported a number of key deficiencies in the Council's governance processes in October 2021 and made a series of Statutory Recommendations via a Section 24 notice. This resulted in a subsequent Independent Monitoring Officer (IMO) review to investigate the issues further and make a series of further recommendations. These retrospective reviews are evidence of a weakness in governance arrangements at the top tier of the organisation in the 2020/21 and 2021/22 years and we raise a Key Recommendation that the recommendations from these reviews are urgently prioritised. This weakness has continued to be recognised for the 2022/23 year as although actions have been taken these are yet to be fully implemented and embedded.

We also identified a significant weakness in relation to service level governance arrangements in 2021/22 and 2022/23 due to an increasing number of poorly rated Internal Audit reports, the issues identified focus on policy and procedure documentation and adherence to these but service levels and quality remain unaffected.

Two improvement recommendations have been noted in relation to risk management, internal audit compliance review and prioritising the remaining recommendations from the Section 24 notice and IMO review. These are aimed at the Council achieving best practice and do not constitute a weakness in arrangements in the same way our key recommendations do.

Improvement recommendations



Governance

Improvement Recommendation 1

Over the years being audited the Council has amended Risk Management processes and this has demonstrated an upward improvement journey. Following these changes there are some further improvements the Council should consider to ensure best practice is demonstrated in the risk management process. They should review the process to ensure that:

- Governance and Audit Committee focus on only those risks which are strategic in nature, ensuring that operational risks are overseen at a more appropriate level of the organisation
- Governance and Audit Committee have a manageable number of strategic risks with which to undertake meaningful discussion, we would suggest between 10-20 is commonplace
- Governance and Audit Committee have sight of all strategic risks sufficiently regularly, as opposed to just high rated risks, to ensure they have a full picture of the risk facing the organisation and can challenge effectively
- Cabinet have sight of strategic risks at least annually to help inform their decision making and allow them to act with the Council's risk appetite
- Governance and Audit Committee receive a sufficient level of detail in the risk reporting with which to understand the impact of the risks and mitigating actions on the Council's ability to meet its objectives these would include assigning each risk to a corporate objective, assigning a target score and including the impact of mitigating actions on the current scoring

Audit years

2020/21, 2021/22 or 2022/23

Why/impact

The Corporate Risk Register is a key mechanism for managing risk to the achievement of the Council's strategic objectives and therefore it is important that there is a clear link between those objectives and the risk being faced, and that the content of the register appropriately informs decision makers.

To ensure that the risks within the register, supporting actions and scoring remain appropriate it is important it undergoes regular scrutiny at the top tier of the organisation and is included in Cabinet meeting papers for transparency to the entire organisation and to ensure that decisions approved at this level are acceptable within the Council's risk appetite.

Effective risk management ensures that both the strategic and operational risks of the organisation are managed consistently.

Management Comments

We welcome that GT have identified the improvements that have been made here and we will look to improve further by implementing these recommendations as soon as it is practical.

The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations



Governance

Improvement Recommendation 2

An external five yearly review is required to assess if Internal Audit conform to Public Sector Internal Audit Standards (PSIAS). We have seen no evidence of this taking place in the three years covered by our work and note in each year end Internal Audit report that there is no intention of management to undertake this. Management should consider undertaking this early in 23/24 to ensure that members can be assured of the effectiveness of this service and ensure compliance with the standards.

Audit years

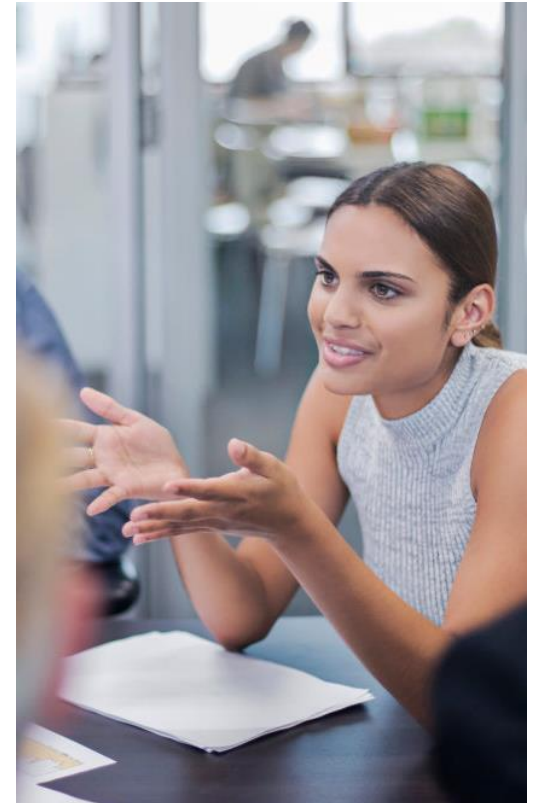
2020/21, 2021/22 or 2022/23

Why/impact

External assurances provide a view on and recommendations for improvements that ensure Internal Audit continue to be effective in their role. This type of review is also a requirement, every five years, under the Public Sector Internal Audit Standards with which the service must comply

Management Comments

Noted and Agreed.



Improving economy, efficiency and effectiveness



We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives
- where it commissions or procures services assesses whether it is realising the expected benefits.

Performance Reporting

For 2020/21, arrangements were put in place for corporate performance to be monitored against the 2015-19 Corporate Priorities by way of quarterly performance reporting to the Council's Overview and Scrutiny Committee and Cabinet. New performance measures had been planned for April 2020 but were delayed due to resource redeployment to deal with the impacts of Covid-19. Instead, the measures which had been in place since 2015 continued in interim use. As the year 2020/21 progressed, however, it was not only the updating of the measures themselves which was delayed. The actual process of reporting on them also deteriorated. By the end of 2020/21, only two quarterly performance reports had been reviewed by the Overview and Scrutiny Committee (Q1 and Q2) and none had been reviewed by Cabinet, meaning that decision makers at the top tier of the organisation were not sighted on performance and therefore did not have the opportunity to take decisions to impact areas of poor performance. This would have been beneficial given that the latest report in 2020/21 showed 7 of the 24 Key Performance Indicators (KPI's) were red-rated and so demonstrating below target performance where actions were needed to facilitate improvement.

In addition, it is noted that the latest performance reporting in the 2020/21 year was taken to the Overview Scrutiny Committee in January 2021, however it included performance data up to September 2020. This is a significant time lag and renders the data somewhat obsolete, reducing the reliability of the decisions that could be made based on this.

During 2020/21, whilst Cabinet and Overview and Scrutiny Committee level performance reports were delayed, directorates were still required to maintain performance data. The Internal Audit service was scheduled to review the performance data reporting system as a whole and was expected to include substantive consideration of performance within service lines sampled for detailed reviews.

With the Covid-19 pandemic causing delays to Internal Audit's programme of work, we note that there was no internal audit of the performance reporting system in 2020/21 or 2021/22 and although planned in 2022/23 this has again been deferred. As such the Council does not have any assurance as to whether arrangements in relation to performance monitoring are effective, however the issues noted in 2020/21 coupled with this lack of assurance lead us to believe there is a weakness in arrangements in the financial year *[Key Recommendation 3]*.

In April 2021 a refresh of corporate performance reporting was endorsed by Cabinet and introduced new KPIs for the Council to assess their performance across a range of services against. Overview and Scrutiny Committee made several recommendations in the update of performance reporting prior to their endorsement which were considered or accepted by members, this shows the role of the committee in challenging and improving arrangements working effectively in practice.

The KPIs are directly linked to the Council's priorities in their updated 2019-23 Corporate Statement and so reflect the up to date objectives of the organisation. In completing the refresh the Council agreed a number of changes to their approach, one of which was reducing the number of metrics to 31 from 47 (this has since been revised again to 35). The evidence suggests that no key areas of operations appear to be omitted and thus enables focus on a fewer number of key areas for members, which leads to more effective monitoring of performance.

The refresh included the development and implementation of a live data tool, available via the Council website, providing retrospective performance across each of the KPI's which are clearly linked to the Council's objectives. This has dramatically increased transparency when compared to 2020/21. However, in 2021/22, there was still a 6 month time lag between the date the information is reported and the date it related to and no evidence of reporting the information to members via Cabinet or Overview and Scrutiny Committee and as such this would continue to require improvement.

Improving economy, efficiency and effectiveness

Performance Reporting (continued)

From March 2023, following a request by members, a six monthly report of the council's Corporate Performance will be shared with the Cabinet to provide an opportunity to more closely review the direction of travel of key service areas and so the improvement in terms of oversight by Cabinet has already been addressed. There continued to be a time lag in information at the start of 2022/23 but this has reduced two 2 months in the final quarter and therefore has been addressed.

The Council should consider keeping the performance management process under review to ensure that members have a full suite of information with which to make decisions as we note that currently the information they receive does not include any information related to the actions that are being taken, especially where there are declines in performance, and who is responsible to allow them to hold the relevant manager to account. Engaging with Internal Audit to ensure that the deferred Performance Management review is undertaken in 2023/24 will be a vital source of information as to the effectiveness of the updated arrangements and further improvements that could be made (*Improvement Recommendation 3*).

The KPI monitoring tool and reporting focusses on establishing the effectiveness of the Council's performance by focusing on an inward looking view. In order to gain an alternative perspective the Council could also undertake an outward view to gauge performance relative to other similar organisations and learn from those organisation where they may be comparatively worse, or provide assurances where comparatively better. This is especially useful as the Council has opted not to include a target within the KPI tool and so there is little information with which to understand comparative performance (*Improvement Recommendation 4*).

East Kent Housing

There is evidence of the Council reacting appropriately when faced with below target performance. One key example is the Regulator of Social Housing issuing adverse findings in 2019 in relation to the service. In 2020/21 the Council response included development of a detailed action plan, weekly monitoring, Internal Audit reviews and, ultimately, bring the housing service back in house from April 2021. Since then the Council has set up the Tenants and Leaseholders Service which aims to address the failings leading to the initial regulatory notice now the service has reverted to an in-house provision. KPI's related to this service are reported quarterly to members with improvements seen throughout the period, therefore there is effective monitoring of the performance of this service. The regulatory notice was withdrawn in February 2022 as a result of the actions taken and so provides evidence of the effectiveness of the improvements made to arrangements.

Your Leisure

Your Leisure is a not-for-profit leisure trust which manages many of the district's leisure and entertainment facilities. This includes Northdown House, Margate Winter Gardens, Hartsdown Leisure Centre and Ramsgate Leisure Centre on behalf of the Council. Government restrictions in place as a result of the COVID-19 pandemic, including the closure of local gyms in 2020/21, led to a significant financial impact on the financial performance of Your Leisure. The arrangements in place included the Council as a guarantor to two loans that the Trust has taken out and therefore financial pressures are not only a concern for the Trust but for the Council as there is a risk they would need to fund those loan liabilities. The Council has provided £160k to the Trust in 2021/22 and 2022/23 to support them in reducing their financial pressures, assisting them in the response to the impact of the pandemic and reducing the risk of defaulting on their loans. The council is working with colleagues from Your Leisure to find a mutually beneficial resolution for the refinancing of loans in order to make a £160k per year saving included in the 2023/24 budget, which demonstrates the Council is looking to mitigate the risks associated with this arrangement whilst maintaining leisure services in the district. These negotiations are still ongoing. In understanding the arrangements with the Trust we have noted that members do not report on the performance of this, or any other, key partnership within its performance reporting or as a separate exercise. Given the financial issues being faced by Your Leisure, which are directly linked to operational performance, this should be of benefit (*Improvement Recommendation 3*).

Benchmarking Analysis

Council's across England submit annual returns on their financial performance to Department for Levelling Up, Homes and Communities (DLUHC). For 2020/21 and 21/22 RO (Revenue Outturn) data is available, for 22/23 only RA (Revenue Account Budget) data has been submitted. Using Grant Thornton benchmarking tools, which makes use of these returns, we have compared unit costs of Council services with all other district councils. This is a tool designed to highlight potential opportunities for savings where unit costs may be high, with the caveat that the information does not account for regional variances between districts or differences in the categorisation and completion of the underlying returns by different councils.

This analysis has identified that the Council's housing services are performing at a comparatively high unit costs based on both the outturn and budget positions, further investigations notes that the key driver of this performance is specifically within homelessness services.

Improving economy, efficiency and effectiveness

Benchmarking Analysis (continued)

The challenge within this service is well documented and understood throughout the Council. The cause is high and unpredictable demand which is commonplace across Kent and the country and an area of overspend we have seen over the last few years across several councils, it is also very much out of the Council's control. Demand impacts the total cost of the service, but our analysis shows that unit cost is also high and therefore even if the Council were able to impact the demand side of the equation total costs could still be high if actions are not also taken to reduce the unit cost of homelessness provision. Our work has highlighted that the Council has taken significant actions to address the issue and time lag is expected between the action taken and the impact being evidenced, as such at this stage we have no recommendations to make. The Council's approach is focused on increasing the supply of accommodation to help meet the demand with £3.5m additional spend included in the 2023/24 budget for temporary accommodation.

There are much higher unit costs associated with different types of temporary accommodation, with private provider costs being much higher than that of Council owned accommodation. As such to make the investment included in the budget most effective the Council would need an action plan in place to increase Council owned provision and reduce reliance on private provision. Steps have already been taken to shift accommodation provision in this direction, in October 2020 the Council made the decision to convert a disused building in Margate, Foy House, into temporary accommodation that was Council owned. This was completed in January 2023 and cost £1.6m. Ongoing operating costs for housing management and support service, repairs and maintenance and other associated costs are expected to be £25-30,000 per year, significantly less than private provider provision. The project was recognised as a finalist in the 'Best Social Housing Initiative' of the MJ Achievement Awards 2023. The industry-leading awards recognise outstanding achievements by local authorities. One of the factors in the recognition was that the project and redevelopment has been 'innovative, enhancing the Council's ambitious homelessness prevention strategy through provision of council-owned and managed temporary accommodation; reducing costs while increasing control and management of the service', therefore reduced costs are a factor in this being an effective arrangement. The 23/24 Capital programme demonstrate that the Council has already approved £2.22m of funding to support a further project of this kind and therefore appropriate steps are being taken and success of Foy house being learned from.

Berth 4/5

The Council operates the Port of Ramsgate. As part of this, it has a long-term contract with an aggregates company to provide a berth for their use. The Council began looking at options to replace the existing berths, 4 and 5, in 2015/16. A capital allocation was approved of £1.5m for the project and it was expected to take 12 months to complete. Between 2015/16 and 2018/19 several options were considered to replace the berth and complete the project but all exceeded the capital allocation. As a result, rather than building a new fixed berth, the Council began to explore suitable second hand options, which are scarcely available.

This project is still ongoing in 2022/23 and during the Independent Monitoring Officer (IMO) review of governance arrangements challenges with the project were raised by staff at the Council. As such the IMO felt it pertinent to include a recommendation that this project have a detailed post implementation review take place to identify the key issues and recommendations so that, ultimately, the same mistakes were not carried forward into other significant capital projects. Internal Audit undertook this review and it was completed in January 2023, and reported to members in March 2023 with a 'No Assurance' rating, the lowest rating Internal Audit provide and so indicative of weaknesses in arrangements.

Internal Audit's review has highlighted several issues that have caused significant delays and cost overruns with the project. Some of the delay and cost overruns are a result of the council-wide governance arrangements around risk averse culture and transparency of decision making noted by the IMO report and therefore are covered by the weaknesses in governance arrangements highlighted via that report.

During 2020/21, following completion of the procurement, the Council submitted its application of relevant planning permission to commence the project, but did so without having undertaken an Environmental Impact Assessment which is requirement of the relevant regulations, but was originally advised by the Marine Management Office (MMO) as not being required.

Improving economy, efficiency and effectiveness

Berth 4/5 (continued)

The Council was notified of this requirement in October 2020 from the Planning Authority and therefore took steps to undertake this work. This caused a delay of 20 months to the start of the project, with it eventually commencing in June 2022. This also had a significant effect on the costs as the total expected cost of the scheme to date is £2.322m, which is an overspend on the original provision of £825,000.

The post-implementation review of the project highlighted, that aside from the council-wide governance arrangements, that the cause of the delays and cost overruns were also related to poor project management as a result of unrealistic time allocations, unrealistic budget allocations, lack of effective communication strategy and not identifying certain requirements such as assessment or expertise required early enough in the project. These are all underpinned by a lack for a project management framework in place. Our discussions with management have also highlighted that lack of capacity within teams to manage such projects is a challenge. Given the project is still ongoing we would suggest the project management weaknesses were apparent in all years 20/21, 21/22 and 22/23 and that the Council need to urgently prioritise seeking additional support from project management experts to ensure there is the required capacity and expertise and limit further delays and prioritising developing and training on a project management framework, as projects are currently ongoing without the underlying governance yet in place **[Key Recommendation 4]**.

The External Audit team received an objection on In September 2021 that related to the Berth 4/5 project and requested that External Audit produce a report in the Public Interest. Our investigations covered both whether it was appropriate for a Public Interest Report to be made and whether decision making in relation to the project was unlawful. The conclusion of this work is that there was no unlawful decision making relating to the issues raised in the objection and that in relation to the two concerns that were raised in the objection that the Council acted appropriately. As part of our review, we also considered as part of our discretion if there is a need to issue a public interest report into the wider circumstances of the project. We noted that the Internal audit report identified weaknesses in arrangements of the project and provided a "no assurance opinion", our consideration of this was that given the significant deficiencies in the project had been reported in the public domain and accepted by management that it was not appropriate to issue a report in the Public Interest on this matter.

As a result of securing government funding, from the Levelling Up Fund and Margate Town Deal, the Council's capital programme has significantly increased.

The bids for this funding were submitted with high level plans for each of the projects, however these were not fully drawn up and since the funding has been received the Council have reprofiled many of the projects delaying the start and use of this funding and suggesting that similar project management issues are continuing to occur. The Council has applied to be part of a pilot scheme in relation to this funding which extends the deadline with which it can be used and so has mitigated some of the risk of the delay caused by a lack of underlying governance arrangements.

Other steps have been taken to learn lesson from the Berth 4/5 project such as engaging a project management firm to run some projects, a Levelling Up and Town Deal Board to oversee project arrangements for the scheme as a whole, a Project Board to review each project individually and regular discussion at Corporate Management Team meetings.

However, we note that the key factor which still requires development is the underlying project management framework which is yet to be completed. In addition, many of these arrangements have been implemented in the 2023/24 year and therefore highlight that weakness did exist in the years our reporting covers.

Contract Management

In early 2023/24 Internal Audit has undertaken a planned review of Contract Management arrangements at the Council. This is a backward looking review and so concerns arrangements in the prior year. At the time of writing this has yet to be reported to members as work is still ongoing. However, discussion with Internal Audit has highlighted emerging findings within this review as their investigations continue. Potential overcharging on a contract has been brought to Internal Audit's attention directly, prompting further ongoing work. Internal Audit's work to date highlights similarities with a lack of underlying governance arrangements within project management of Berth 4/5 and performance monitoring identified elsewhere in this report and therefore suggests a pervasive issue across project management and the contracts being managed to deliver those projects. Potential issues include a lack of monitoring arrangements or post completion reviews at the Council to review performance in line with contract arrangements, with reliance being placed on the contractor to undertaking necessary checks. There is potential that the issues highlighted could pertain to multiple contracts and therefore the Council should prioritise working with Internal Audit to understand the depth of the issues highlighted by this current review **[Key Recommendation 4]**.

Improving economy, efficiency and effectiveness

Conclusion

2020/21 saw a significant gap in performance reporting to Cabinet during the Covid-19 pandemic, this has been highlighted as a significant weakness in arrangements and a Key Recommendation raised. This was at a time of pressure on services, and since then a new continuous, live system has since been introduced, and further improvements to ensure that the outputs from this are reported to Cabinet going forwards, as such the weakness does not exist beyond 2020/21.

Internal Audit have provided a 'No Assurance' rating in relation to the project management of the Berth 4/5 project and other reviews by the function have highlight similar issues within contract management. The overriding theme is a lack of effective underlying governance arrangements and therefore a weakness and Key Recommendation have been raised to this effect.

Improvement recommendations



Improving economy, efficiency and effectiveness

Improvement Recommendation 3

Improvements in performance reporting have occurred since 2020/21, which was unable to be evidenced, which included greater transparency of performance using live data tool, link to updated corporate objectives and retrospective performance data available. As such the previous weakness identified is able to be lifted for subsequent financial years.

However some improvement recommendations were still noted for 2021/22:

- Time lag between date being reported on and the date at which is being reported being around 6 months, this should be reduced to improve reliability of decisions that can be made based on the information
- Explicit presentation of performance data to Cabinet with sufficient regularity so that there is clear mechanism for discussion rather than placing reliance on members to use the live data

2022/23 identified further improvements made as a summary of performance is now reported to Cabinet every 6 months to address point two above. Improvement recommendation in relation to the time lag remains for the first half of the 2022/23 year but has been addressed in the final two quarters.

The Council should now consider demonstrating best practice and strengthening performance management processes by:

- including details of actions being taken and who is responsible in the KPI reporting to allow members to track progress effectively
- working with Internal Audit to prioritise the output of the Performance Management review to ensure useful information is available with which to assess, and make further improvements to, new performance management arrangements while they are embedding into the organisation
- developing a Council wide approach to service performance benchmarking, opportunities exist to formalise this as part of the iterative improvements being made to the performance reporting
- ensuring that reporting on the performance of key partnerships is regular and based on up to date information, particularly in relation to Your Leisure where negotiations are ongoing and challenges have been faced

Audit years

2022/23

Why/impact

Performance reporting is a vital tool in allowing the Council to assess if it is successfully meeting its corporate objectives and therefore it should be reviewed with sufficient regularity, in a timely manner and sufficiently detailed to allow this assessment to be made.

Management Comments

I am pleased that GT have noted the improvements that have been made over the last few years and we will look to make further progress by implementing the additional recommendations as soon as is practical.

Financial sustainability



We considered how the Council:

- identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds them into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning which may include working with other local public bodies as part of a wider system
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

Outturn and Medium-Term Outlook

For 2020/21, a balanced budget was anticipated but a £3.6m deficit outturn was incurred, although covid-19 pressures accounted for a proportion of this overspend it was, in part, also attributable to factors which were specific to the Council. The most significant unbudgeted costs were £733k in legal costs related to whistleblowing, grievance and disciplinary matters and £445k of project costs related to the Berth 4/5 project. Both issues are noted as weaknesses elsewhere in our reporting and resulted in additional pressures to the financial position of the Council as noted in our Statutory Recommendations in October 2021.

Again in 2021/22 and 2022/23 the Council set a balanced budget, as is legally required. The outturn position for 2021/22 was a £1.1m surplus and for 2022/23 the final outturn is estimated at a £1.99m deficit as this has not yet been produced. The key reasons for this deficit are the cost of living crisis causing additional demands on the need to place homeless and rough sleepers in temporary accommodation, staff sickness causing the use of agency staff in the street cleaning department and income shortfall compared to budget within Port operations due to restricted opportunities. Homelessness and street cleaning are covered in the 3E's section of the report and assessed in more detail, the shortfall in port operations is being responded to via the capital programme investing significantly in future port of Ramsgate over the medium term. This programme is again covered in more detail later in this section.

Each of these outturn positions is provided with the caveat that the supporting accounts are yet to be produced and audited for material accuracy nor has supporting reporting or documentation been able to be provided, this is noted as a weakness later in this report. As this is an interim report we will update our review of this section once this information is available for review.

The Council updates its Medium-Term Financial Plan (MTFP) alongside the annual budget each year. The latest MTFP for 2023/24 spans a 4-year planning horizon and is within the expected timeframe for a Council of Thanet's size and nature. Per this latest plan the Council expects to have a budget gap of £5.8m between 2024/25 and 2026/27. The gap has improved since the MTFP was updated as part of the 2022/23 budget setting process.

This is due to a continuation of current funding levels in 2024/25 and a delay to funding reforms, which are expected to reduce funding from business rates growth, Revenue Support Grant and New Homes Bonus from 2025/26. Currently the mechanism at the Council's disposal to respond to the gap is the use of reserves, as savings are already built into the MTFP. Savings and opportunities for additional income generation within the MTFP are, predominantly, planned for on a one-year basis and therefore there is the opportunity for the Council to plan for savings on a longer-term horizon in order to reduce the gap and increase financial sustainability.

The Council should prioritise extending the savings planning horizon alongside exploring alternative options to reduce reliance on reserves, which are a finite resource and may be diverted away from the purposes they were set aside for, should they be required to fulfil future budget gaps. **(Improvement Recommendation 4).**

Budget and Treasury Monitoring Process

Cabinet and Overview and Scrutiny Committee (OSC) receive budget monitoring reports within the financial year. The format of the reports provides the forecast outturn position compared to budget and therefore allows decision makers to assess the full potential impact of the current variance by year end and take action accordingly. The report effectively explains why the variance in each case has occurred, and therefore ensures members understand the underlying operational factors impacting the budget. However, there is limited information included on next steps and actions being taken. This information would be particularly beneficial for underperforming services and would allow decision makers to track progress at each meeting against the proposed actions, ultimately increasing accountability **(Improvement Recommendation 5).**

The Council commits to undertaking budget monitoring each quarter, with a final outturn report presented to confirm the year-end position in the fourth quarter.

Financial sustainability

Budget and Treasury Monitoring Process (continued)

This was successfully upheld in 2021/22 with the final outturn presented to Cabinet in July 2021. Quarters 1-3 were reported in 2021/22 and quarter 1-2 reported in 2022/23, there is no reporting to date in 2023/24. The Council did not formally report the 2021/22 outturn to Cabinet and at the time of writing the 2022/23 outturn reporting has not yet been prepared. It is expected to be reported to members in September 2023. Therefore, members have not had sight of the Council's financial performance since December 2022, which related to the position at September 2022, and are now due to receive the 2022/23 outturn position with a significant time-lag. It is of particular importance that members receive timely financial information given that the Council are also delayed in publishing their financial statements.

In addition, of the reporting that has been provided to members, there is an increasing time lag between the date the information relates to and the time at which it is reported of up to 3 months for those reports available to date, with a much longer gap anticipated for the 2022/23 outturn. The lack of information and time lag combined are deemed to be a weakness in arrangements as it does not provide members with sufficient information with which to make reliable and up to date financial decisions. The reason for the lack of reporting is due to a variety of staffing capacity issues, noted in the Governance section, which led to key officers including the Director and Deputy Director of Finance covering multiple roles. In addition to this, there were also further issues within the finance department due to staff turnover and the departure of key staff that meant that they were not able to complete the closure of the 2021/22 accounts in a timely manner. The senior management restructure is expected to be fully completed in October 2023 which is expected to respond to the challenges observed as key staff members will no longer be fulfilling multiple roles and key interim finance staff have now also been replaced by permanent team members. However should the required improvements to transparency of the financial position not improve we would be required to escalate the issue further via a more serious statutory recommendation as there would be no evidence to confirm the Council remained financially viable if timely reporting is not restored. **(Key Recommendation 5).**

The Council updates its Treasury Management Strategy Statement and Annual Investment Strategy annually in line with the budget setting timetable. Full Council and Cabinet also receive a mid-year and year-end review of Treasury Management performance and therefore are sighted on activity 3 times a year, this is deemed sufficiently regular and representative of the level of investments, borrowing and risk being faced in this area. There are no gaps in the monitoring reports, as has been observed with budget monitoring, however a time-lag issue also exists within this area reporting of up to 6 months. The year-end performance is reported in September the following year, for example. More up to date information would be beneficial for decision makers in ensuring their decisions can be made on relevant and reliable information **(Key Recommendation 5).**

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Budget Setting Process

The 2021/22 budget setting process began in November 2020 and concluded with final approval by Full Council in February 2021. There was discussion by Cabinet and Overview and Scrutiny Committee prior to this. The same process and timeline was followed for the 2022/23 and 2023/24 budgets and is deemed provide multiple opportunities for engagement and challenge in the process at the top-tier of the organisation. Concerns were raised internally regarding the lack of service level engagement in the initial stages of developing the 2022/23 budget and as such the budget process was considered to be a top-down approach, predominantly led by the top-tier of the organisation with concerns around the engagement of the finance team and services being raised by the Director of Finance at the time.

As the 2022/23 budget process progressed, as well as a change of Director of Finance, a 'Budget Prioritisation' approach was implemented which involved services in proposing their own budgeted revenue, expenditure and savings which was subject to a detailed scrutiny process. As such the previous challenges in lack of involvement and engagement have been rectified in the 2022/23 and 2023/24 budgets **(Improvement Recommendation 6)**. There is clear involvement of residents in setting budgets in all years, and although the reporting of this is implicit within the 2021/22 budget, there is clear analysis of resident feedback included within future budgets.

In each year the budget has been set using the prior year budget as a starting point and adjusting for known changes in funding, expenditure and assumptions. This then determines the reserves strategy and savings programme required to set a balanced budget. This is presented at Council-wide level and therefore there is no information presented to members at service or directorate level. The in-year budget monitoring is presented at directorate level and so does provide more granular detail. Councils are required, by law, to provide certain services with all other services representing discretionary spend. Although the Council currently has no plans to reduce or remove any discretionary services, they are facing a medium-term financial gap, which may result in the need to evaluate the cost effectiveness of such services. Designing the budget and MTFP around directorates or services to allow this analysis to take place would be beneficial to facilitate any future discussions around the cost effectiveness of services **(Improvement Recommendation 7)**.

With regards to funding and income assumptions the Council has demonstrated robust and realistic assumptions being made in the years reported on. Two key expenditure assumptions impacting the budget in all years are pay awards and non-pay inflation. A range of rates of inflation are used depending on the type of expenditure, to estimate these a specific modelling exercise is undertaken each year by the Finance Team during the budget setting process. The average rates of inflation used in each year were 2% for 2022/23, 2% for 2022/23 and 6% for 2023/24.

Financial sustainability

Budget Setting Process (continued)

Although the increase in the assumption between budgets does demonstrate that the Council has responded to rising inflation in the UK, the rates used in the budget are considered to be optimistic, and therefore presenting a risk of overspend in the actual outturn when compared to the CPI rates in the relevant years. For context, at February 2023 the CPI rate was 9.2% and therefore above the assumption made. A similarly optimistic assumption exists in relation to the annual pay award. The Council allowed for 1%, 2% and 4% increases in 2020/21, 2021/22 and 2022/23 respectively. Announcements in relation to the pay award are made after the date the budget is set and determined that the average uplift would be in the region of 2% and 7% in 2020/21 and 2021/22 and the proposed 3.88% increase for 2023/24 was rejected nationally. The Council would benefit from ensuring a mechanism is in place for updating the budget for key assumptions as updated information becomes available ([Improvement Recommendation 7](#)).

It is commonplace for Councils to undertake scenario planning as part of the budget and MTFP setting process to enable them to effectively plan for a range of opportunities and challenges that could realistically be faced before they occur. Optimistic, pessimistic and neutral scenarios are considered in the 2021/22 budget from an operational perspective but with no analysis of the potential financial impact. The 2022/23 budget improves its analysis in this respect provides the total financial impact over the life of the MTFP of the three scenarios, but with limited information on a line-by-line or service basis. In each year the budget is based on the neutral scenario as this is deemed the most likely, the 2022/23 budget therefore reduces the scenario planning analysis to focus solely on this potential outcome. To ensure the budget is most beneficial to decision makers at a time when the Council is facing financial risks the Council should consider planning for a range of scenarios at service level to ensure a range of outcomes can be planned for in advance. ([Improvement Recommendation 7](#)).

Financial risks facing the Council are considered implicitly throughout the 2021/22 budget and Medium-Term Financial Plan (MTFP) but improvement has been seen in the presentation of risk in the 2022/23 and 2023/24 documentation where there is a standalone specific section on risk to allow members to fully understand these when approving the budget for the year ahead. The risks identified are those expected of a District Council and are commonplace in the sector. Other potential risks facing the Council, which are specific to their circumstances and could have a financial impact, such as the potential impact of a loan guarantor agreement with the Council's leisure provider, impact of specific projects such as the Port of Ramsgate delays and any revenue impact and legal costs which are noted in our statutory recommendation on financial sustainability.

These risks are not explicitly set out in the budget papers and therefore transparency of risk could be improved. Further improvement could be made to ensure decision makers fully understand how risks may crystallise by estimating the financial impact of each on the MTFP, this is linked to the recommendation around scenario planning as the different scenarios are based on how much/many of the risks occur in reality ([Improvement Recommendation 7](#)).

The most significant area of spend for the Council is staff costs and as such it is good practice for a Council to have a forward looking workforce strategy, and associated plan, which covers the same time period as the MTFP, to ensure that the Council has the workforce required to provide planned service levels and that these can be afforded within resources the Council has available. We have not identified a workforce plan being developed and presented alongside the 2021/22 budget. As part of the 2022/23 budget an exercise was undertaken to review and remove vacant posts providing savings totalling £248k.

This shows some consideration of the direct impact of the workforce on the budget but this was not informed by a forward looking workforce plan. In 2023/24 the Council has identified that some departments, as a result of the removal of vacant posts, are experiencing issues with low capacity and growth in budgets has been required to rectify this. A forward looking plan to help plan for the costs of the expected workforce going forwards would be beneficial to avoid any further unbudgeted costs as a result of decision making in relation to the workforce and to avoid removing posts that are required for the smooth running of certain services ([Improvement Recommendation 8](#)).

Savings

The 2020/21, 2021/22, 2022/23 and 2023/24 budgets all include a savings target broken down by the individually identified project/actions to make these savings. Savings targets in the respective years were £730k, £840k, £667k and £852k with additional support from income generation in the form of fees and charges. Savings and efficiencies are narrow in scope and rely on small spending cuts across several services, while this is positive and so does not place pressure on just one area of operations the Council has the opportunity to explore other ways of making savings across a greater range of cost and income drivers ([Improvement Recommendation 9](#)).

We have been unable to review the Councils saving target against their actual outturn due to the latest information having not been reported to members. As this is an interim report, we will review this position once available in our final report.

Financial sustainability

Savings (continued)

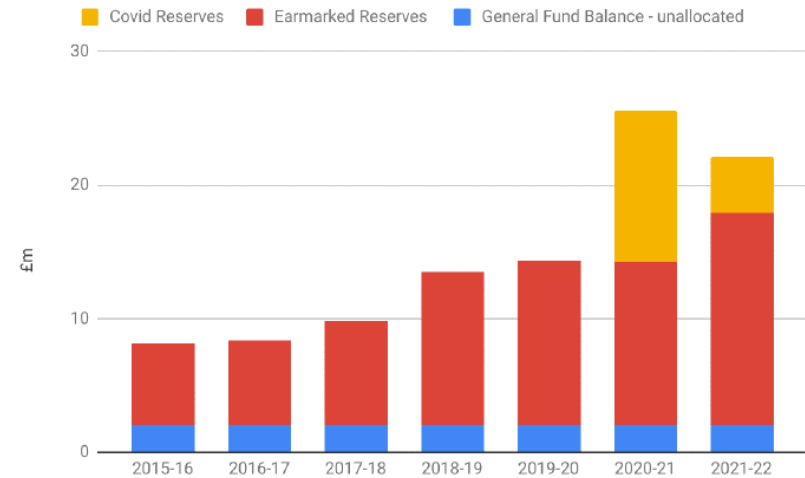
Cabinet and OSC have sight of the budget, including savings, before Full Council approval. As such there is a simple and well-established method of approval of savings in place. As noted, changes to the budget process in 2022/23 and 2023/24 to include a 'Budget Prioritisation' process have ensured that service lead are at the forefront of identifying their own savings schemes and gaining approval for these through a detailed challenge process. In theory, this should increase the probability of the required savings being achieved and ensures that the savings identified are through specific programmes of work as opposed to simple cost cutting, which tend to be non-recurrent and place pressure on services each year.

Once savings are approved, they form part of the base budget and are monitored as part of the monthly monitoring undertaken by Managers throughout the organisation. Financial performance is then reviewed at Council-wide level and reported to Members accordingly, through the budget monitoring reports. Although there is consideration of the impact of savings performance within the variance analysis in the budget monitoring reports there is no granular level detail available to members on individual savings schemes, with the exception of quarter 1 of 2021/22, to assist them in monitoring the success of these in the year and allowing them to take actions prior to year end to progress slippage in savings ([Improvement Recommendation 9](#)).

Where savings are successfully delivered there is no evidence of a post implementation review process taking place to enable the Council to learn lessons from these success, extend such schemes or apply to other services to maximise savings across the Council ([Improvement Recommendation 9](#)).

Reserves

It has been well reported in prior years that the Council has historically held relatively low reserves, especially when compared to other district councils. This was supported by analysis undertaken within the Chartered Institute of Public Finance and Accountancy's financial resilience index which confirmed that at 2019/20 the Council were the 29th lowest out of the districts in England and the second lowest in Kent, based on total General Fund reserves (including general fund earmarked reserves). Reserves were at their lowest point in 2015/16 when general fund and earmarked reserves balances stood at £8.2m, which equated to only 42% of the council's net revenue budget.



Over recent years the Council committed to increasing reserve holdings and these have steadily increased, at the time of setting the 2023/24 budget reserves stood at £17.9m (excluding Covid reserves), which is more than double the level held at the end of 2015/16. This represents approximately 85% of planned net revenue expenditure for 2023/24. As such the Council's reserves are now in a much stronger position.

It is noted that the Council's total reserve balances reduced by £3.5m during 2021/22. This was a result of usage of Covid-19 reserves, which relate to Section 31 grant payments made to the Council from government in order to compensate for lost business rate income due to pandemic related business rate reliefs and cannot be spent on anything else.

Therefore, their usage is deemed to have been for the purpose they were provided and negated the need to use existing earmarked reserves and divert them away from the specific projects they were set aside for, to respond to the pandemic. The ongoing increase in earmarked reserves demonstrates robust planning for the mitigation of future specific risks and projects. Therefore, the underlying position tells a positive story of the Council's continuing improved financial standing and planning for the future.

Grant Thornton recently published a paper entitled 'Lessons from recent Public Interest reports' and it includes a strong emphasis on the importance of maintaining an adequate level of reserves. There is no formal definition as to what constitutes adequate, but Grant Thornton's view is that reserves should be a minimum of 5% of net spending and preferably be somewhere between 5% and 10%. Using the audited 2020/21 accounts, CPI inflation and the reserves information available we can conclude that for 2021/22 reserves would be approximately 13% of the net cost of services. This would not reduce below the threshold based on the 2022/23 draft position.

Financial sustainability

Reserves (continued)

Earmarked reserves are proposed to be used on a number of occasions for the 2023/24 budget, however the section 151 officer is satisfied that these allocations are appropriate; the contributions are of a one-off nature and are in keeping with the intended purpose of the reserve, in that they will either help smooth or mitigate emergency expenditure pressures or will help to generate additional income or reduce costs in the future.

The Council identifies several risks in the budget each year. The potential risks, track record of poor savings performance and a budget gap in the medium term of £5.8m within the 2023/24 Medium Term Financial Plan (MTFP) would eradicate reserves if all came to fruition in the 23/24 year. In reality these risks and budget gap would occur over several years, in the meantime the Council is looking to increase savings, which links with our previous improvement recommendation. The Council does need to continue to work to reduce unbudgeted risks, continued efforts in relation to governance to avoid further legal action and addressing financial risks such as savings delivery to reduce the medium-term gap in order to continue on the positive trajectory in terms of reserves that has been observed in recent years (*Improvement Recommendation 4*).

Section 25 of the Local Government Act 2003 requires that when a local authority is agreeing its annual budget and precept, the chief finance officer must report on the adequacy of the proposed financial reserves. This requirement is met in the 2021/22 budget, however for 2022/23 although there is detailed historical analysis of reserves usage and benchmarking there is no explicit statement as to their adequacy. This has been rectified for 2023/24 in setting the budget which includes the confirmation that 'the section 151 officer is satisfied with the adequacy of the council's current reserve holdings and the robustness of the estimates that have been applied to the 2023/24 budget'. Our work has noted a strengthening position and therefore concurs with this statement in all years (*Improvement Recommendation 7*).

Capital Programme

The Council produces its capital programme each year as part of the budget setting process and sets out its plans across a 4 year medium term time frame in line with the MTFP. The capital programme is informed by the Asset Management Plan which outlines the Council's approach to its material asset holdings. The Plan spans 2017-2021 and therefore is outdated and requires updating to ensure that capital decisions remain relevant to the changing capital programme (*Improvement Recommendation 10*).

In May 2021, an external consultant was engaged to review the effectiveness of its financial management. The consultant's final report (received in September 2021) included significant observations around the poor time-phasing of the 2020/21 capital programme and as such reprofiling was required when producing the 2021/22 programme (*Improvement Recommendation 11*).

The capital programme for the four years from 2021/22 totalled £18.5m. However, after successful bids for additional funding the Council, in 2021/22, secured £40m from the Margate Town Deal and Levelling Up Funding from central government to support regeneration projects in the district. As a result of this capital programme has increased substantially with the 2023/24 programme totalling £55m over 4 years. Slippage in the capital programme has also been noted in each financial year which is likely linked to poor project management identified as a weakness earlier in the report.

Discussions with officers has noted that when the project plans were produced to include in the proposals for additional funding that these were at a high level, with further work needed after the funding was secured to enable projects to be successfully mobilised. This has caused some delays to commencing these projects and has led to reprofiling of many of the projects into later years of the capital programme and contributed to the slippage observed.

The Town Deal and Levelling Up funding has conditions attached to it which includes that it should be spent on the projects it was intended for by March 2025, therefore the delayed start and reprofiling has a potential risk to the Council of not meeting this deadline and funding being clawed back. The Council, in early 2023/24, has secured a place within a pilot scheme associated with this type of funding and one of the benefits of this scheme is that there is an extension to this deadline to March 2026. As such the risk associated with the delayed start is somewhat mitigated. In addition, there is evidence of some projects having now commenced, the Council has engaged external project management support in relation to some of projects and have liaised with these consultant regarding the profiling of the projects to ensure the timeline is more realistic than the initial estimates made by the Council. It would be beneficial to extend this support and analysis across the remaining programme to ensure the profiling remains realistic across all projects (*Improvement Recommendation 11*).

The risk of future potential profiling issues due to poor project management remain a cause for concern and a key recommendation has been raised in that respect earlier in the report. The Council is looking to seek additional external project management support as capacity of the procurement and legal teams is low, and as such capacity and expertise required for such a large programme is limited. Initial discussion have begun to progress this engagement.

Financial sustainability

Conclusion

A significant weakness has been highlighted in relation to the reporting of financial performance to members via budget monitoring and outturn reporting. Cabinet have not received financial performance reporting since December 2022 which related to quarter 2 of the 22/23 financial year, nor have they received the final outturn position for 2021/22 or 2022/23. The financial statements for these financial years are also yet to be produced and published and as such there is a lack of awareness of the Council's financial standing by its decision makers.

We have also noted several improvement recommendations concerned, predominantly, with ensuring best practice in the production and reporting of the budget setting process.

Improvement recommendations



Financial sustainability

Improvement Recommendation 4

The latest MTFP demonstrates that the Council has a £5.8m financial gap in the medium term, which the Council plans to meet from reserves. Sufficient reserves are available in the medium term based on current projections as the Council has built these up since 2015/16. However, this would divert those reserves away from the purposes they were set aside for and therefore the Council should prioritise identifying alternative mitigations to the risks identified in the budget each year.

Notably, the Council predominantly plans for savings and additional income generation on a one-year basis, planning these areas of the budget over a longer-term horizon would be beneficial in identifying potential opportunities to reduce the medium-term gap and improve financial sustainability.

Audit years

2020/21, 2021/22 and 2022/23

Why/impact

Reserves are a finite resource and to ensure that the Council can protect itself, and its services, from future uncertainties and as such the Council should reduce reliance on reserves to meet financial gaps.

Management Comments

We note and agree GT's recommendations.



Improvement recommendations



Financial sustainability

Improvement Recommendation 5

The Council report their budget and treasury performance to members via the OSC and Cabinet, this is also reviewed by CMT. The Council could improve the information provided to these decision makers by updating the financial monitoring reports to include, not only causes of individual variances, but also actions being taken to address negative variances.

Audit years

2020/21, 2021/22 and 2022/23

Why/impact

Information relating to the actions proposed to tackle variances provides members with a mechanism with which to track progress and impact of those actions and ultimately hold the responsible officers to account.

Management Comments

Noted and agreed.

Improvement Recommendation 6

There is limited evidence of individual services being involved in the initial setting of the 2022/23 budget which was a top-down approach led by the top-tier of the organisation. The Council should seek to improve processes to ensure better service level engagement in the budget setting process. However, this has been rectified in setting both the latter stages and finalisation of the 22/23 budget and throughout the 23/24 budget via a 'Budget Prioritisation' process

Audit years

2021/22

Why/impact

Budget holders are ultimately the officers who are responsible for delivering the budget at an operational level and therefore greater collaboration with budget holders could be of benefit as this can identify new opportunities for efficiencies, more robust assumptions and more buy in from teams to deliver budgets as they have a greater sense of ownership.

Management Comments

Noted and agreed.

Improvement recommendations



Financial sustainability

Improvement Recommendation 7

The Council should review the budget setting process each year to ensure it remains effective, including:

Risk Documentation - further improvement could be made to how risk is considered in the budget documentation to ensure decision makers fully understand how risks may crystallise by estimating the financial impact of each on the MTFP.

Many of the risks are generic, common risks to the sector, the Council would benefit from reviewing the financial risks to the budget and MTFP for completeness to ensure Thanet specific risks are included considered.

Scenario Planning - in 2021/22 risk analysis and scenario planning was implicit in the budget, improvements have been seen in the 2022/23 budget where planning was based on three scenarios, however only a neutral scenario has been planned for in the latest 2023/24 budget. To ensure the budget is most beneficial to decision makers at a time when the Council is facing financial risks the Council should consider planning for a range of scenarios at service level to ensure a range of outcomes can be planned for in advance.

Assumptions - There is evidence that some key assumptions, such as the pay award and inflation, are overly optimistic at the time of the budget setting. The Council should review assumptions used within the budget, and allow these to be updated via budget updates, to ensure that the budget remains realistic in light of changing external factors.

Section 25 Statement - this statement is a requirement of budget setting. The 22/23 budget does not include a specific Section 25 S151 statement and it is recommended to be included in budget documentation to members going forwards. This is rectified with further explanation and justification in the 2023/24 budget report.

Identification of Discretionary Spend - The Council should consider making a clear distinction between statutory and discretionary spending in the budgetary information provided to members. Although the Council currently has no immediate plans to consider removing or reducing services, a medium-term financial gap exists and therefore this information would be beneficial to facilitate potential future discussions as to the cost effectiveness of services..

Audit years

2021/22 and 2022/23

Improvement recommendations



Financial sustainability

Improvement Recommendation 7 (continued)

Why/impact

Financial risks have the potential to impact the achievability of the budget, as such it is imperative that the risks identified are complete and relevant to the Council's specific circumstances.

Scenario planning is commonly used in the sector as a way of planning ahead for potential challenges and limiting the need to make reactive decisions should such challenges occur, as they already have an action plan in place for a range of possible scenarios ahead of time.

Assumptions which are overly optimistic in the budget setting process can lead to additional financial pressures higher than expected unplanned variances occur in year.

The section 25 statement from the S151 officer is a regulatory requirement and provides decision makers with appropriate assurance as to the integrity of the budget they are asked to approve.

To ensure that decision makers can easily identify those services which are underperforming financially and the actions that will be taken to address that underperformance. This allows members to more easily track progress and impact of those actions on underperforming services and hold relevant budget holders to account where required.

Management Comments

Noted and where possible, this will be fed into the 2024/25 MTFS process.

Improvement recommendations



Financial sustainability

Improvement Recommendation 8

The Council should develop a forward-looking workforce plan setting out the establishment required for the smooth running of each service, this can then be aligned to the budget and MTFP.

Audit years

2020/21, 2021/22 and 2022/23

Why/impact

A workforce plan ensures that the Council has the appropriate capacity to fulfil its operations, does not remove vacant posts that it will require in future and understands the cost impact of the required workforce over the medium term.

Management Comments

Service by service salary estimates are already produced to sit alongside the MTFP.

Improvement Recommendation 9

The Council identifies the savings required for each year during the budget setting process and these are monitored by finance throughout the year. The Council may wish to improve this process by:

- **Increasing the Scope** - Savings and efficiencies are narrow in scope and rely on small spending cuts across several services, while this is positive and so does not place pressure on just one area of costs savings the Council has the opportunity to explore other ways of making savings across a greater range of cost and income drivers.
- **Monitoring Processes** - greater oversight at individual scheme level and more frequent monitoring is needed of the savings. Cabinet, in particular, should have greater oversight and ability to hold services to account.
- **Post Implementation Review** - there is no evidence of such reviews taking place in relation to savings schemes. The council should perform post implementation reviews to ensure that lessons can be learned and savings maximised.

Audit years

2020/21, 2021/22 and 2022/23

Why/impact

Maximising savings delivery is imperative to the achievement of the budget each year and reduces the reliance on reserves.

Management Comments

Noted.

Improvement recommendations



Financial sustainability

Improvement Recommendation 10

The Council should update its Asset Management Policy as this latest version expired in 2021 despite the fact that asset disposals have continued into the 2022/23 year and the capital programme has significant increased in value.

Audit years

2021/22 and 2022/23

Why/impact

Updates required to ensure that disposals and additions to the Council estate remain relevant to objectives.

Management Comments

Work is already underway to review the scope of Asset Management and associated policies.

Improvement Recommendation 11

An external review noted that the capital programme for 2020/21 was poorly time phased and therefore it would be recommended that the Council undertake more realistic reprofiling of the programme in subsequent years.

The Council has now engaged a project management expert in relation to some projects who have assisted in profiling projects based on their own analysis. It is recommended that this approach is extended across the programme.

Audit years

2020/21, 2021/22 and 2022/23

Why/impact

The Council has increased its capital programme significantly as a result of the Town Deal and Levelling Up funding. This funding has conditions attached which include a deadline by which projects should be completed, as such poor profiling of projects and slippage creates a risk to achieving this deadline and funding potentially being clawed back.

Management Comments

Noted.

COVID-19 arrangements



Within the 2020/21 year COVID-19 had a significant impact on the population as a whole and how local government services are delivered.

We have considered how the Council's arrangements in the 2020/21 financial year adapted to respond to the new risks faced.

Financial sustainability

The impacts of the Covid-19 pandemic were felt widely across the General Fund by Thanet District Council. Examples of budget pressures in 2020/21 as costs increased and revenues fell included:

- £747k Council tax recovery income not realised;
- £282k property income not realised because of slower tenancy turnover;
- £191k lower building control income as fewer planning permission applications were made;
- £160k additional cost to waive Your Leisure management and additional fees, to support the leisure sector through the crisis;
- £569k parking enforcement income not realised as car parks and town centres stayed closed;
- £218k increased costs of waste and staff cleaning to contain virus spread;
- £150k port income not realised as travel and transport activity contracted; and
- £81k fall in income from licencing applications.

The Council received Covid grants from the UK Government of £3.371m during 2020/21. Of these, £2.558m was used to fund the corporate overspend incurred as a result of the pandemic and the balance was transferred to reserves. The Council also received £8.642m of section 3 grant to compensate it for business rate income foregone due to the covid reliefs granted to retail, hospitality & leisure businesses and nurseries.

Governance

A by-election was postponed by Thanet District Council from March 2020 to May 2021, but most routine governance processes within the Council itself continued to operate over the period of delay. Between 4 April 2020 and 7 May 2021, all meetings were held online. Thanet District Council's Democratic Services team provided support with online meetings not only to Thanet's Committees by also to support the work of other East Kent Districts

The Finance Team set up new activity codes on ledgers to capture covid costs. Costs and lost income were reported as separate items in all monitoring reports to Cabinet and the Corporate Management Team through 2020/21 as well as in monthly returns to central Government. The overall size of the finance team expanded as in-house teams took on new grant paying functions that could not be absorbed within Civic's Revenue and Benefits services. Most officers worked online/ remotely during 2020/21 though. Even now, Council use office space has declined by around 50%, adding impetus to discussion around what the long-term future of the Council head office building should be.

A significant amount of Internal Audit resource was redeployed in the first Quarter of 2020/21 to support the Council's Covid-19 response. By the end of 2020/21, 77% of the Internal Audit days planned for the year had been provided. Enough to provide opinion although we note that work following up Limited Assurance opinions in three areas from 2019/20 could not be completed.

COVID-19 arrangements

Improving Economy, Efficiency and Effectiveness

New corporate performance measures that were due to be implemented from 1 April 2020 were delayed due to the redeployment of Council resources to support the response to Covid-19. As an interim measure for April 2020 - March 2021, corporate performance continued to be monitored against the previous corporate priorities the council has seen overall performance impacted by the increased demands of responding to the COVID-19 pandemic. For context, the last quarter of performance reported in 2019/20 was 5 red, 3 amber and 16 green

Conclusion

Arrangements were disrupted during the Covid-19 pandemic but there are no new issues identified as a result.

Follow-up of previous recommendations

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
<p>1 Commission an independent, experienced Monitoring Officer (IMO) from a large local authority to report to the General Purposes Committee on:</p> <ul style="list-style-type: none"> - A risk assessment of the current employment tribunal claims and propose actions which safeguard the Council's best interests including a detailed financial analysis of the options available to the Council - An assessment of the status of all outstanding grievances, alleged whistleblowing complaints and any continuing suspensions and propose a plan of action to address them - A lessons learnt report collating themes and recommendations from all externally commissioned reports and any other appropriate evidence. 	Statutory	October 2021	<p>In terms of the risk assessment, a provision for expected costs associated with the disciplinary and legal proceedings was included in the 2020/21 statement of accounts, based on a risk informed assessment of probable costs. Cabinet were also updated in June 2021 of the provision. The adequacy of this provision is periodically reviewed by the S151 Officer as part of the production of the Council's financial statements. As such this element of the recommendation has been fulfilled.</p> <p>The assessment of outstanding grievances was taken to the General Purposes Committee in April 2022. The Committee received evidence which was not received at the time of the allegations and should have been, along with a response from the Chief Executive at the time, Madeline Homer. In addition, the Committee also received independent investigations from August 2021, details of the settlement agreed with the former Chief Finance Officer and outstanding matters still to deal with in respect of these investigations. As such the recommendation has been fulfilled in early 2022/23.</p> <p>The Council engaged an IMO in December 2021, shortly after the Statutory Recommendations were presented to Council. His work concluded in May 2022. It made 9 recommendations and action plan was developed to address these by the Council. At March 2023 progress was presented to members and noted that the response to the recommendations of the IMO were substantially complete. Our work has reviewed the response and noted those still in progress are predominantly due to the fact that the Council's senior management restructure will complete in October 23 when all staff, that have already been recruited, will be in post. Our key recommendation reflects this but we are satisfied that the requests of the recommendation have been addressed.</p>	Yes	<p>To follow up in 2023/24 whether the actions taken to complete the IMO action plan have been completed and that updated arrangements are fully embedded in order to consider the recommendations closed.</p>

Follow-up of previous recommendations

2	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
2	Bring the current Investigations and Disciplinary Sub-Committee (IDSC) process to a conclusion with clear actions that are reported and action monitored	Statutory	October 2021	<p>The Council developed an action plan to respond to the statutory recommendation which states that this item was considered fully responded to in April 2022. The item was restricted from the public when presented to members, given its sensitivity, we are satisfied this was appropriate and not indicative of transparency issues. The report includes several appendices to ensure that members were provided with a full suite of information with which to make the decision including an independent investigation into the individual and recommendations from the IDSC.</p> <p>The Monitoring Officer was dismissed with immediate effect in April 2022 and therefore concluded in the 2022/23 year.</p> <p>One specific case, where an employee raised grievances against the former Chief Executive, eventually resulted in redundancy of the complainant. Actions taken to progress this redundancy continued following our statutory recommendation being raised. It resulted in the pausing of the process following legal advice, therefore delaying the conclusion of the case. The case continued with three employment tribunals being raised against the Council in total, linking the redundancy to unfair dismissal and the initial grievance raised. The case was eventually settled in July 2023 at a cost to the Council. This is indicative that poor decision making in relation to this specific grievance continued after the statutory recommendation was raised, despite a positive response to the recommendation to settle other cases. As such the recommendation in relation to this case was not addressed in the period being reviewed. Although it has now concluded and settled the value forms part of the financial statements provisions. Given that 2021/22, 2022/23 and 2023/24 financial statements have not yet been published the recommendation cannot be considered fully closed until the public have had the opportunity to exercise their right to challenge the accounts.</p>	Partially	Follow up of the statutory recommendation as part of the 2021/22 and 2022/23 financial statements audit process.

Follow-up of previous recommendations

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
3 Revisit financial plans and identify additional savings plans to address the further cost pressures created in resolving the grievances and whistleblowing complaints	Statutory	October 2021	The 2022/23 Budget Strategy was approved by Cabinet on 18 November 2021. Within this was a proposal to make a £180k contribution to reserves over the life of the MTFP in order to restate the reserves that were used to fund the cost pressures.	Yes	No
4 Agree an approach where the Council demonstrates that it is responding to the substance of concerns raised including a clear agreement of where Officer and Member responsibilities lie	Statutory	October 2021	<p>This recommendation remains in progress. It requires an update to specific sections of the Constitution related to member and officer protocols, development of a behavioural framework and training on the new framework.</p> <p>As at March 2023 when the Council action plan was last presented to members progress had been stalled due to the fact that the Council senior officer restructure had not yet completed and local elections would result in a change in members. It was felt that new policies and training would be most effective if implemented when new staff and members were in post, we would agree with this sentiment. All officers have been recruited under the restructure and are expected to be in post by October 2023.</p> <p>We have noted some ongoing updates to the Constitution and have therefore included in our improvement recommendations to prioritise the development of the behavioural framework and associated training so it can be mobilised immediately once all officers are in post.</p>	Partially	To follow up in 2023/24 whether the behavioural framework and training have been completed and that updated arrangements are fully embedded.

Summary of objections to accounts

Year of Objection	Open/ Closed Status September 2023	Objection	Auditor assessment and conclusion	Status in September 2023
2018-19	Closed	Parking charges and claims the Council was not acting in line with the "Road Traffic Regulation Act (1984)"	No public Interest report or declaration to the Court for an unlawful item of account was required.	Complete- this means we are able to issue our Audit Certificate following this meeting. This opinion will include and except for highlighting issues around East Kent Housing. Note this service has in subsequent years been brought in house.
2019-20	Open	Related to the Councils use of Non-Disclosure Agreements.	Work ongoing- we are unable to provide interim views on our review of objections until we issue our statement of reasons.	Work is ongoing on this matter. We require further documents from the Council to enable us to complete our review regarding this matter.
2020-21	Open	We received an objection in relation two specific matters on the Berth 4-5 project.	We received one formal objection on this matter. In relation to this our Statement of reasons has been sent to the objector: No public Interest report or declaration to the Court for an unlawful item of account was required. We also received in the inspection period other requests on this matter and we still in the process of liaising with these individuals regarding this matter.	Work is complete and was responded to formally in our Statement of Reasons to the objector.
2020-21	Open	Objection in relation to the Sale of Dreamlands.	Work ongoing- we are unable to provide interim views on our review of objections until we issue our statement of reasons.	Work is nearing completion, and we will update the Committee in November on our findings.

Summary of objections to accounts cont.

Year of Objection	Open/ Closed Status September 2023	Objection	Auditor assessment and conclusion	Status in September 2023
2020-21	Open	We received an objection raising specific concerns regarding the Governance of the Margate Town Deal Board.	Work ongoing- we are unable to provide interim views on our review of objections until we issue our statement of reasons.	Work is ongoing in relation to this objection.
2020-21	Open	We received an objection regarding the fact the Council did not have an active Lottery license holder.	Work ongoing- we are unable to provide interim views on our review of objections until we issue our statement of reasons.	Work is nearing completion and we will update the Committee in November on our findings.
2020-21	Open	We received an objection regarding the fact the Council did not have an active Data protection officer.	Work ongoing- we are unable to provide interim views on our review of objections until we issue our statement of reasons.	Work is nearing completion and we will update the Committee in November on our findings.
2020-21	Open	Objection in relation to the procurement of RCV Diesel vehicles considering the Council declaring a climate change emergency.	Work ongoing- we are unable to provide interim views on our review of objections until we issue our statement of reasons.	Work is nearing completion, and we will update the Committee in November on our findings.

In relation to the outstanding objections, we will issue an updated version of this report following the finalisation of our work on these matters.

In doing so we will also consider if any of the findings impact on our Value for Money findings for the 3 years in this report.

We also note due to the fact the Council has not issued the 2021-22 or 2022-23 accounts we have not had a chance to consider potential objections in these financial years. From discussions with members of the public we are expecting to receive objections in relation to the 2021-22 financial year.

Opinion on the financial statements



Audit opinion on the financial statements

We have substantially completed our audit of the Council's financial statements for 2020/21 and plan to issue an unqualified audit opinion following the Governance and Audit Committee meeting on 27 September 2023.

Production, and subsequent audit, of the 2021/22 and 2022/23 accounts has been delayed and notified via the Council's website. The 2021/22 accounts are due to be completed and ready for audit shortly.

Audit Findings Report

More detailed findings can be found in our AFR, which was published and reported to the Council's Governance and Audit Committee on 27 September 2023.

Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Council. This work includes performing specified procedures under group audit instructions issued by the National Audit Office.

Thanet District Council is not a sampled component in the WGA accounts.

Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair
- Prepared in accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation



Appendices

Appendix A – Responsibilities of the Council

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

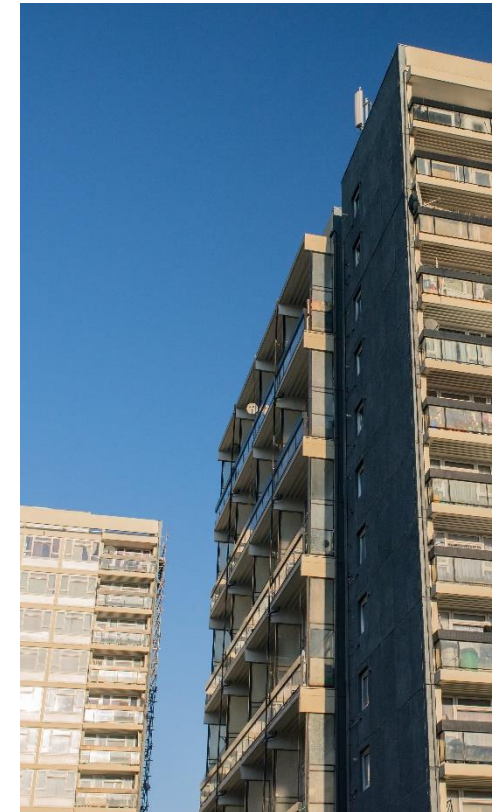
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) or equivalent is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.



Appendix B – Risks of significant weaknesses, our procedures and findings

As part of our planning and assessment work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we identified are detailed in the table below, along with the further procedures we performed, our findings and the final outcome of our work. Some risks were identified in the course of our work, these are also noted below:

Year of audit	Risk of significant weakness	Procedures undertaken	Findings	Outcome
All years	Governance - risk identified in the 2020/21 Audit Plan due to complex grievance issues apparent in 2019/20 requiring external support. This resulted in us raising statutory recommendations in October 2021.	Review of the Council's action plan to respond to the statutory recommendations, discussions with key officers and review of supporting evidence to determine if the recommendations had been effectively responded to.	<p>The actions taken to respond to the statutory recommendations raised as a result of the grievance issues were substantially complete at the end of 2022/23. Those remaining actions required all new members and senior managers to be in post, which is expected in the 2023/24 year. As such we believe the Council has shown commitment to responding to the issues and the weakness identified at risk assessment stage. However, to fully address the weakness the Council should prioritise the remaining actions required to fully respond to the statutory recommendations.</p> <p>In undertaking our work in this area we reviewed wider governance arrangements and noted that whilst there had been improvement in governance at the top-tier of the organisation weaknesses were apparent at service level. This was identified via review of Internal Audit reports and discussion with the Head of Internal Audit.</p>	Our work identified that weaknesses in governance arrangements at the top tier of the Council were apparent in 2020/21 and 2021/22 and improvements were made by 2022/23. However, until the Council completes its senior management restructure and associated policies and training the weaknesses are not fully responded to. Our work identified that whilst improvement had been made at this level, at service level further improvements were required to ensure that policies and procedures were effective in order to ensure compliance of those services. A weakness in arrangements and key recommendations have been raised relevant to all years

Appendix B – Risks of significant weaknesses, our procedures and findings (continued)

Year of audit	Risk of significant weakness	Procedures undertaken	Findings	Outcome
All years	3E's - No potential risks of significant weakness were identified within our Audit Plan, however potential risks became evident in relation to ineffective project and contract management in the course of our work.	Review of the Council's post implementation findings in relation to the Berth 4/5 project, application of lessons learned to date from the review and liaison with officers and internal audit to understand arrangements in relation to contract management and emerging issues within specific contracts.	<p>The Council does not have sufficient capacity or a robust project management framework in place with which to manage large scale projects or a large number of projects and as such requires additional support from project management experts.</p> <p>An emerging contract issue has highlighted potential fraudulent activity which was not picked up via existing performance monitoring arrangements. The Council now needs to investigate whether this is a more pervasive issue. This is of particular importance as the Council's capital programme has substantially increased in terms of the volume of projects and total value. This is a result of successful bids for Levelling Up and Town Deal funding totalling c.£40m. Should the appropriate governance arrangements to monitor projects not be in place then there is a risk of overruns, overspends and further fraudulent activity on a much larger scale.</p>	Significant weakness identified in all years and a key recommendations raised.

Appendix B – Risks of significant weaknesses, our procedures and findings (continued)

Year of audit	Risk of significant weakness	Procedures undertaken	Findings	Outcome
2020/21	3E's - No potential risks of significant weakness were identified within our Audit Plan, however a risk was identified in the course of work in relation to a lack of performance reporting	Review of changes in performance reporting arrangements in following years, 2021/22 and 2022/23, to ensure arrangements were implemented following a period of no reporting. This included reviewing the Council's live reporting tool and the content and frequency of reports to members to summarise information from the tool.	No performance reporting was presented to members of the Cabinet in 2020/21. In 2021/22 the Council implemented a live tool which monitored performance against KPIs linked to the Council's objectives. This was a marked improvement from the prior year. A time-lag between the information and the date of reporting was identified and although the tool was available publicly no papers related to the outcomes were taken to Cabinet to challenge, discuss and propose actions to respond. In 2022/23 Cabinet requested that reporting on the performance be provided every 6-months and this has been implemented. There still remains a time-lag in the information and an improvement recommendation has been raised to prompt the Council to review this.	Significant weakness identified in 2020/21 and a key recommendation raised. The issue was effectively responded to in 2021/22 and 2022/23 and therefore the weakness and key recommendation not relevant in later years. An improvement recommendation raised aimed at achieving best practice raised to include greater information on actions being taken

Appendix B – Risks of significant weaknesses, our procedures and findings (continued)

Year of audit	Risk of significant weakness	Procedures undertaken	Findings	Outcome
2020/21	Financial Sustainability - risk identified in the 2021/21 Plan because of the Council's comparatively low level of reserves when compared to other Kent District Council's. We did identify a weakness in reporting arrangements for outturn and budget monitoring which was not identified as a risk due to no issues prior to or within 2020/21 being evident	<p>We reviewed the arrangements for:</p> <ul style="list-style-type: none"> the Council's arrangements for identifying and monitoring risks to financial delivery the robustness of the council's medium term financial strategy and savings plans level and use of reserves. <p>In undertaking this work we identified that the Council had not reported its outturn position to members for 2021/22 or 2022/23 or quarterly budget monitoring beyond quarter 2 of 2022/23. To follow up this finding and identify if there was a risk we liaised with officers to understand the reasoning for this and obtained alternative financial information to review the draft outturn position in each year.</p>	<p>The Council has built up its reserves over a number of years since 2015/16. Although medium term plans include a financial gap of £5.8m at the latest MTFP the Council has sufficient reserves based on their current estimates to support the gap as a last resort. We have raised improvement recommendations for the Council to prioritise seeking longer term savings, income generation opportunities and alternative methods to plug the gap so as not to divert reserves away from the purposes they have been set side for.</p> <p>We identified that the capacity of senior management within the finance team following the departure of key officers at the top tier of the Council was the reason for the lack of reporting on financial performance.</p>	Our work did not identify a weakness in arrangements due to the Council's level of reserves. Our work did identify a weakness in arrangements as a result of a lack of financial reporting to members.

Appendix C – An explanatory note on recommendations

A range of different recommendations can be raised by the Council’s auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No – Section 24 notice and statutory recommendations were raised in October 2021 following the 2019/20 Value for Money work and have been followed up as part of our work in proceeding years as documented in this report.	N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as ‘key recommendations’.	Yes	See relevant sections of the report and pages 9 to 13.
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the [type of body]’s arrangements.	Yes	See relevant sections

