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To: MEMBERS OF THE STRATEGY & RESOURCES COMMITTEE
Councillors Bourne (Chair), Langton (Vice-Chair), Black, Bloore, Botten, Caulcott, Cooper, Davies, Elias, Gillman, Pursehouse and Stamp

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Substitute Councillors: Allen, Groves, Morrow and Sayer

C.C. All Other Members of the Council

8 September 2021

Dear Sir/Madam

STRATEGY & RESOURCES COMMITTEE TUESDAY, 14TH SEPTEMBER, 2021 AT 7.00 PM

The agenda for this meeting of the Committee to be held in the Council Chamber, Council Offices, Station Road East, Oxted is set out below. If a member of the Committee is unable to attend the meeting, please notify officers accordingly.

Should members require clarification about any item of business, they are urged to contact officers before the meeting. In this respect, reports contain authors' names and contact details.

If a member of the Council, not being a member of the Committee, proposes to attend the meeting, please let the officers know by no later than noon on the day of the meeting.

Yours faithfully,

David Ford
Chief Executive

AGENDA

- 1. Apologies for Absence (if any)**
- 2. Declarations of Interest**

All Members present are required to declare, at this point in the meeting or as soon as possible thereafter:

- (i) any Disclosable Pecuniary Interests (DPIs) and / or
- (ii) other interests arising under the Code of Conduct

in respect of any item(s) of business being considered at the meeting. Anyone with a DPI must, unless a dispensation has been granted, withdraw from the meeting during consideration of the relevant item of business. If in doubt, advice should be sought from the Monitoring Officer or her staff prior to the meeting.

- 3. Minutes of the meeting held on the 6th July 2021 (Pages 3 - 16)**

To confirm as a correct record

- 4. To deal with any questions submitted under Standing Order 30**

- 5. Forensic review and fact-finding investigation into a potential budget gap for 2020/21 and implications for 2021/22**
 - 5.1 Grant Thornton report (Pages 17 - 30)
 - 5.2 TDC response to the Grant Thornton report (Pages 31 - 44)

- 6. Any other business which, in the opinion of the Chair, should be considered at the meeting as a matter of urgency**

TANDRIDGE DISTRICT COUNCIL

STRATEGY & RESOURCES

Minutes and report to Council of the meeting of the Committee held in the Council Chamber - Council Offices on the 6 July 2021 at 7.30pm

PRESENT: Councillors Bourne, Langton, Black, Bloore, Caulcott, Cooper, Davies, Elias, Gillman, Morrow (Substitute) (In place of Botten), Pursehouse and Stamp

ALSO PRESENT: Councillors Allen, Lockwood, Mills, Moore, O'Driscoll, Ridge, Steeds and Swann

APOLOGIES FOR ABSENCE: Councillor Botten

66. MINUTES OF THE MEETING HELD ON THE 8TH JUNE 2021

Subject to the addition of Councillor Steeds to the list of Councillors 'Also Present' these minutes were confirmed as a correct record.

67. NORTHGATE PUBLIC SERVICES MIGRATION PROJECT UPDATE

A verbal update was given about progress towards meeting the go-live date for the Northgate contract. This confirmed that the Northgate processing service commenced during the week commencing 21st June and was now helping to clear the backlog of existing benefits work. The contract was being monitored via weekly performance meetings and two temporary members of staff had been recruited to assist with phone cover and minor administrative tasks. This resource had freed capacity for additional training and user acceptance testing. In addition, overtime had been approved for revenues & benefits specialists to enable them to prioritise the project over business as usual tasks. Subject to a minor three-day slippage regarding data conversion, all elements of the project were on track. John Ellis (Account Manager at Northgate Public Services) joined the meeting for this item to comment on the update and to respond to questions.

Arising from the debate, it was confirmed that the original capital budget for the project was £162,000 and that the above-mentioned overtime will be funded from the 'Covid outbreak management fund'.

Members reflected that not all residents would be able to engage with the self-service features of the new revenues & benefits Citizens' Access Portal and that the less 'IT aware' citizens would need to be catered for. John Ellis confirmed that other non-digital access channels would still be available and that the self-service route was an additional option. However, the view was expressed that statistics were needed to monitor take up of the various means of utilising the service.

The need for robust user testing was also discussed, including the possibility of residents assisting as volunteers for this purpose.

The Chair welcomed the fact that the delivery of the project was still on schedule.

68. JOINT WORKING ARRANGEMENTS WITH SURREY COUNTY COUNCIL FOR FINANCE SERVICES

At its 25th March 2021 meeting, the Committee approved arrangements whereby Surrey County Council (SCC) would provide a comprehensive finance function to TDC comprising the Section 151 role; leadership and management of a full range of financial functions; and support through the Tandridge Finance Transformation (TFT) plan. Ricky Fuller (Surrey County Council's TFT programme manager) presented a report which informed the Committee about the outcome of the initial due diligence phase, including an analysis of current weaknesses and suggested actions to address them as part of the TFT plan. This analysis had been shared with a 'Member / Officer Reference Group' on 17th June. The coverage of the report included:

- guiding principles for the finance function and the role of finance within TDC;
- an 'overall mission' to:
 - blend the skills, experience and expertise of the Surrey and Tandridge teams into a high performing, resilient, finance function for the Council
 - build a trusted, proactive and insightful Finance Service which is at the heart of a strong culture of financial management, accountability and evidence-based decision making across the Council
 - improve processes and use systems more effectively to increase efficiency, free up capacity and strengthen controls
- five workstreams to transform the finance function and the role of finance within the Council, i.e.
 - a new finance model and staffing structure, with a blend of TDC directly employed staff and senior members of the SCC finance team
 - a transition of the SCC team to provide management oversight, best practice guidance and (in some cases) take on delivery of services to TDC
 - organisational development to strengthen financial management
 - measures to strengthen the exchequer function
 - effective delivery of the 2021/22 budget and the savings required while incorporating any key outcomes of the Grant Thornton forensic review.
- proposed 'roadmaps' of activities for the finance and exchequer functions until the first quarter of 2022
- a governance regime for the TFT plan.

The report explained the need to invest in strengthening the finance team to allow the shared SCC service to fulfil its objectives. The anticipated increased staffing costs were £27,000 in 2021/22 and up to £76,000 in 2022/23 and annually thereafter. Two additional one-off investments would also be required, namely:

- £30,000 associated with the role of a Finance Transformation Lead (0.5 FTE) which had been offered as a development opportunity to the TDC finance team – the cost would allow backfilling for the successful candidate
- £50,000 for a short-term exchequer services change team.

A risk analysis of the TFT plan was provided within the report, together with the outline terms of a proposed Joint Working Agreement (JWA) to act as the legal basis for the partnership. The Chief Finance Officer advised that, had the risks been 'RAG' rated, they would be classified as 'amber'. It was agreed that the Vice-Chair of the Committee (in addition to the Chair and Group Leaders) should be consulted by the Chief Executive regarding the completion of the JWA (Resolution C below refers).

During his presentation, Ricky Fuller emphasised that the need to strengthen the exchequer function was not a negative reflection of the Tandridge team which he regarded as being diligent and committed. He was convinced that the proposed investments were necessary to restore the finance function onto a resilient footing. In response to Members' questions, Ricky Fuller and the Chief Finance Officer explained the potential corporate benefits to justify the proposed increase in finance staffing costs.

Following the 'due diligence' and 'transformation' phases, the partnership would enter a 'steady state' (Phase 3) with the option of a managed exit whereby full control of the finance function could pass back to TDC. It was confirmed that this would be a genuine choice for the Council and that the longer term future of the partnership was not predetermined.

RESOLVED – that:

- A. the one-off investment of £80,000 required to develop and deliver two of the key workstreams within the Tandridge Finance Transformation Plan be supported;
- B. the case to strengthen the finance function within the Council and the additional investment required of (up to) £76,000 in the 2022/23 financial year (and a potential part-year impact in 2021/22 of circa £27,000) be supported; and
- C. the Chief Executive be authorised to complete the Joint Working Agreement and the final detailed operating model with Surrey County Council, following further detailed discussion and consultation with Group Leaders and the Chair and Vice Chair of the Strategy & Resources Committee.

COUNCIL DECISION

(subject to ratification by Council)

RECOMMENDED – that the one-off investment of £80,000 required to develop and deliver two of the key workstreams within the Tandridge Finance Transformation Plan be met through the use of the Council's flexible capital receipts.

(In accordance with Standing Order 25, Councillors Black and Pursehouse wished it recorded that they abstained from voting on all the above resolutions / recommendation).

69. INVESTMENT SUB-COMMITTEE - 11TH JUNE 2021

The minutes of the Sub-Committee's meeting on the 11th June 2021 were considered. This prompted a question about when the Council might expect to receive a dividend from Gryllus Property Limited as owner of the share capital. The Chair gave a summary explanation, including the fact that the latest accounts are in preparation, and would address the question in greater detail to the individual Member after the meeting.

RESOLVED – that the minutes, attached at Appendix A, be received.

70. STRATEGY & RESOURCES QUARTER 4 (20/21) PERFORMANCE REPORT

Members were presented with an analysis of progress against the Committee's key performance indicators and risks for the fourth quarter of 2020/21.

In response to questions, it was confirmed that:

- the Planning Advisory Service report had been received and was about to be shared with the planning team prior to engagement with Councillors
- regarding the Local Plan, a position statement in light of the Junction 6 (M25) transport modelling was nearing completion.

Members suggested that mitigating actions within the risk analysis should be revised where risk scores remained high. It was confirmed that the Tandridge Finance Transformation Plan would be added to the corporate risk register.

RESOLVED – that the report be noted.

71. RISK MANAGEMENT STRATEGY

A proposed new risk strategy management strategy was considered. The Strategy's objectives were to:

- provide the basis for a comprehensive, simplified and standardised framework which will integrate risk management into the culture of the organisation;
- raise awareness of the need for risk management by all those connected with the delivery of the Council's corporate priorities, including partners;
- engender associated corporate governance principles, such as risk and transformation activity being driven by programme / project management principles, including the use of business cases for investment decisions to manage risk effectively;
- support the Council in anticipating and responding to changes in social, environmental and legislative conditions;

- help to minimise injury, damage, loss and inconvenience to residents, staff, service users and assets arising from or connected with the delivery of services;
- continually improve procedures for the identification, analysis, assessment and management of risk, and the reporting and recording of events, based on best practice;
- support the Council in minimising the cost of risk.

The strategy included a revised 'likelihood x impact' risk scoring process, including criteria to help gauge the scale of likelihood ('very unlikely' to 'likely') and impact ('low' to 'very high'). Guidance to help define a scale of risk appetite (from 'adverse' to 'eager') was also provided.

It was suggested that a 'lessons learned' section should be added to the strategy to inform future objective setting and help develop best practice. In response, it was explained that the strategy was a work in progress and could be developed to incorporate such revisions. The extent to which the Strategy should facilitate greater Member involvement in the risk management process was also discussed.

RESOLVED - that the new Risk Management Strategy, as attached at Appendix A to the report, be adopted.

72. IT & DIGITAL STRATEGY

A draft IT & Digital Strategy for 2021 to 2024 was considered. This intended to provide a plan for realising the Council's digital ambitions, to be delivered within a robust governance framework. The strategy included:

- three themes (accelerating channel shift / working smarter / ICT modernisation) to be achieved through a set of actions; and
- an improved governance structure with a digital design group to be responsible for working with the service areas in assessing IT proposals in terms of technical and business merits.

A strategy was accompanied by a proposed form to be completed by service managers to make their case for investment in an IT project. A work plan for delivering the strategy over the next three years was also submitted. Various issues were raised during the debate, including:

- whether users should have greater involvement in IT projects;
- the need for an options appraisal section within the business case pro-forma (it was acknowledged the 'alternative analysis' section could be rebranded for this purpose);
- whether the proposed IT governance structure could be streamlined;
- a suggestion that the list of current and future IT projects should be categorised according to the three strategic themes referred to above;
- the need to guard against IT security threats and to ensure that the interactive sections of the website were as secure as possible for residents.

RESOLVED – that the IT & Digital Strategy 2021/2024, as attached at Appendix A to the report, be approved.

73. CLIMATE CHANGE ACTION PLAN UPDATE

A report was presented which updated Members about progress against the climate change action plan since its adoption in November 2020. This confirmed that progress had been made on several fronts and invited Members to confirm:

- (i) how they would like Members to proceed with the installation of electric vehicle (EV) charge points in the Council's car parks (four options were presented); and
- (ii) the future arrangements for the 'Climate Change Task & Finish Working Group' (two options were presented).

Regarding (i) above, the report commented on officer dialogue with charge point operators and the outcome of soft market testing to explore key issues such as funding options; the length and scope of a potential contract; the compatibility of back office operating systems; charging speeds and tariffs; the scope for profit sharing; measures to address EV 'bay blocking'; environmental credentials and the potential for added social value. The merits of a partnership approach with the County Council were also referred to. The majority of Members favoured option 2 (resolution B below) although others supported option 3 (to "*maintain a watching brief on EV infrastructure and the role of local authorities – to formally review as part of the November 2021 Action Plan update*").

An initial 'Council greenhouse gas emissions report' for 2019/20 had been prepared but remained unpublished, pending a data reliability review. The significance of this was discussed, with opposing views about whether it compromised the rest of the action plan.

Officers agreed to check with Surrey County Council about when the data from its 'Facebook live' public engagement event would be shared with TDC.

RESOLVED – that

- A. the contents of this report and the progress against the Climate Change Action Plan be noted;
- B. regarding the potential installation of electric vehicle charge points in the Council's car parks, Officers proceed with composing a form of tender based on parameters to be confirmed by the Executive Head of Communities in consultation with the Climate Change Task & Finish Working Group (as per No. 2 of the four options within the report);
- C. the Climate Change Task & Finish Working Group be renamed 'the Climate Change Working Group' and continue (as per No. 1 of the two options within the report) until further notice, comprising 7 Councillors, i.e.

2 x Independents and OLRG Alliance
2 x Conservative
2 x Liberal Democrat
1 x Independent Group

(In accordance with Standing Order 25, Councillor Cooper wished it recorded that he abstained from voting on resolution C above)

74. PA SUPPORT FOR THE CHAIR OF THE COUNCIL

Councillor Pursehouse had asked for this item to be included on the agenda under Standing Order 18. He introduced the report which included his proposals for:

- increasing the current level of officer support (2 hours per week) for the Chair of the Council;
- engaging officer support to help establish the charities fundraising committee as an independent charitable entity (thereby achieving tax benefits); and
- a seminar as per recommendation B below.

The report invited the Committee to make a recommendation to Council based on the information provided. It advised that the additional cost of increasing the current level of PA support to the proposed 7 hours (average) per week would be £5,263 per annum.

It was considered that, for the time being, the Chair of the Council's annual civic allowance should be used to fund the increased level of PA support being sought by Councillor Pursehouse but that, otherwise, the Chair of the Council and the fundraising committee should be self-sufficient. Members also agreed that the proposed seminar be held in the near future to inform subsequent decisions about longer term arrangements for supporting the Chair of the Council, including the question of whether the annual civic allowance should be increased to cover the required costs.

COUNCIL DECISION

(subject to ratification by Council)

RECOMMENDED - that:

- A. a PA service be provided to support the Chair of the Council as and when necessary for an average of 7 hours per week (including support for the charities fundraising committee and the seminar referred to in B below) to be funded from the Chair of the Council's annual civic allowance for the time being;
- B. a seminar be held in the near future to enable the Council to explore how it wants its Chair to represent TDC and what activities it wants them to undertake; and
- C. the longer term resource requirement for support to the Chair of the Council be considered in light of the outcome of B above.

Rising 11.10 pm

INVESTMENT SUB-COMMITTEE

Minutes and report to Council of the meeting of the Sub-Committee held in the Council Chamber, Council Offices, Station Road East, Oxted on the 11 June 2021 at 10.00am

PRESENT: Councillors Bourne, Cooper, Elias, Jones and Langton

ALSO PRESENT: Councillor Farr

1. ELECTION OF CHAIR FOR 2021/22

Councillor Bourne was elected Chair of the Sub-Committee for the 2021/22 Municipal Year.

2. MINUTES OF THE MEETING HELD ON THE 15TH JANUARY 2021

Subject to the heading of Annex 1 to the minutes (capital, investment and treasury management strategy) being corrected to "Investment Sub-Committee – 15th January 2021 (as opposed to 2020) the minutes were agreed as a correct record.

3. SUMMARY INVESTMENT AND BORROWING POSITION AT 31ST MARCH 2021

The investment analysis at Annexes A and B was presented. The format had been refined since the previous meeting and Members were invited to make suggestions for any further improvements.

The accompanying report explained that, following advice from the Council's treasury advisers (Link Group), the refinancing of a £4.25m Housing Revenue Account PWLB loan due at the end of March 2021 had not been applied. Instead, the loan was being financed by internal borrowing from the General Fund, saving approximately £80,000 in a full year of loan payment costs.

Members were also updated in respect of the previous decision to cease the reinvestment of Funding Circle proceeds and to withdraw funds as loans were repaid. As at 31st March 2021, £1.1m of the principal investment had been returned. While the Sub-Committee had previously agreed to reinvest the returned proceeds into the Schroders, UBS and CCLA funds, the monies had, instead, been used to support the Council's cashflow in light of the challenges imposed by the pandemic. The Funding Circle proceeds could now be utilised for medium term investment purposes and the report advocated that Link, the Council's treasury advisors, be engaged to undertake a fund manager selection process to identify optimum investment vehicles in line with the Council's objectives. It was also confirmed that Link would review the Council's wider treasury investment strategy, including the question of whether current investment levels were appropriate. This would be beyond the scope of the existing treasury management contract and would incur an additional charge of £8,500. The process would take 4-6 weeks and would involve a questionnaire to all fund providers, culminating with a selection process based on the returns submitted.

Nazmin Miah, Associate Director of Link Market Services, joined the meeting via Zoom to explain the proposed treasury investment review process. She clarified that this would cover the whole of the c.£12 million portfolio and, notwithstanding the fact that the portfolio had been performing satisfactorily to date, would enable the Sub-Committee to exercise due diligence by reviewing the treasury investment strategy in line with emerging plans and priorities.

Nazmin Miah and the Chief / Deputy Chief Finance Officers responded to Members' questions, including an explanation of the Council's current treasury management contract with Link.

Regarding Recommendation B of the report, the Sub-Committee considered that the term 'high yielding' should be removed. Councillor Jones also proposed an amendment to clarify that Link would be engaged to review the whole of the Council's treasury investment portfolio (not just the reinvestment of Funding Circle proceeds) and that the investment strategy to be identified by Link would be presented to the Sub-Committee for consideration. This was agreed.

It was noted that the Sub-Committee's next scheduled meeting was not until the 5th November 2021. It was therefore agreed that, to expedite the matter, an additional meeting be scheduled for early September 2021 to consider Link's findings.

RESOLVED – that:

- A. the Council's investment and borrowing position at 31st March 2021, as set out at Annexes A and B, be noted;
- B. authority be delegated to the Section 151 Officer to manage the Council's investment portfolio who, in turn, will discharge this function to our treasury advisers, Link Group, who would undertake a Fund Manager selection process to identify, and recommend to the Investment Sub-Committee for agreement, an updated short, medium and long-term investment strategy aligned with the Council's financial plan; and
- C. an additional meeting of the Sub-Committee be scheduled for early September 2021 to consider the strategy referred to in B above.

4. INVESTMENT PROPERTY UPDATE

The Sub-Committee resolved to move into 'Part 2' for this item in accordance with Paragraph 3 (information relating to financial or business affairs) of Part 1 of Schedule 12A of the Local Government Act 1972.

The accompanying report advised Members about the performance of the Council's property investment portfolio; updated valuations of the three properties owned by Gryllus Property Limited; and asset management activity being undertaken in respect of the all the properties concerned.

Members were informed that the 2020/21 accounts for Gryllus Property Limited had yet to be finalised but could be presented to the Sub-Committee's September 2021 meeting (minute 3 above refers).

RESOLVED – that the Council's recent and proposed property asset management activity be noted.

Rising 11.35 am

Investment	Investment Amount 31/03/21 £	Net Asset Value 31/03/21 £	Yield Rate Note 1 %	Actual Return 2020/21 £
<u>Non - Specified (Financial Investments)- Long Term (over 12 mths)</u>				
CCLA Property Fund	4,000,000	4,158,183	4.33	179,910
Schroders Bond Fund	3,000,000	2,908,911	4.32	125,529
UBS Multi Asset Fund	3,000,000	2,777,398	5.05	140,171
CCLA Diversification Fund	2,000,000	1,955,874	3.17	62,069
Funding Circle	863,160	863,160	5.70	77,070
Sub Total Non-specified (Financial Investments)	12,863,160	12,663,527		584,749
<u>Non - Specified (Non-Financial Investments)- Long Term (over 12 mths)</u>				
Gryllus Property Company Loan - Maidstone	2,394,000	2,394,000	5.81	139,023
Freedom Leisure- Loan (TLP)	774,857	774,857	5.50	53,271
Freedom Leisure- Loan (de Stafford)	496,571	496,571	7.58	47,050
Gryllus Property Company Loan - 80-84 Station Rd East	1,012,500	1,012,500	5.81	54,979
Gryllus Property Company Loan - Castlefield	11,664,000	11,664,000	6.10	711,504
Gryllus Property Company Share Capital Note 2	5,251,500	5,251,500	-	-
Sub Total Non-specified (Non-Financial Investments)	21,593,429	21,593,429		1,005,827
Total Non-Specified Investments	34,456,589	34,256,955		1,590,577
<u>Specified Investments-Short Term (less than 12 mths)</u>				
Notice Accounts	4,000,000	4,042,040	0.28	11,449
Money Market Funds	3,250,000	3,250,000	0.07	12,470
CCLA PSDF	4,000,000	4,000,000	0.08	3,391
Total Specified Investments	11,250,000	11,292,040		27,310
Total Non- Specified and Specified Investments	45,706,589	45,548,995		1,617,887
Total Investment Income Budget 2020/21				2,764,200
Over/(under) budget				(1,146,313)

Borrowing	Loan Amount	Interest	Actual Cost
	£	%	2020/21 £
General Fund Borrowing			
Gryllus Loan	3,420,000	2.46	84,132
Freedom Leisure Loan	2,225,000	2.45	54,513
Village Health Club	938,678	2.38	22,341
Linden House	4,175,000	2.69	112,308
Linden House	254,000	2.42	6,147
Quadrant House	15,340,000	2.41	369,694
Quadrant House	800,000	2.28	18,240
Gryllus - 80-84 Station Road	724,400	2.28	16,516
Gryllus - Castlefield	15,549,000	2.91	450,913
Sub Total General Fund Borrowing	43,426,078		1,134,803
Total GF PWLB Budget 2020/21			1,889,000
Over/(under) budget			(754,197)
HRA Borrowing			
Public Works Loan Board	56,939,000	2.72	1,661,341
Sub Total HRA Borrowing	56,939,000		1,661,341
Total HRA PWLB Budget 2020/21			1,926,500
Over/(under) budget			(265,159)
Total Borrowing	100,365,078		2,796,144
Total Budget 2020/21			3,815,500
Total Over/(under) budget			(1,019,356)

Notes:

1. Yield Rate - actual annual return divided by net asset value. Note Funding Circle's net asset value has reduced due to principal repayments therefore the rate has been calculated using the average of the start of year value and the close of year value
2. Gryllus share capital comprises of equity shares arising from loans granted - no dividend will be paid in the current year

Market Value of Long Term Investments at 31/03/2021

Annex B

	2016/17	2017/18	2018/19	2019/20	2020/21
Carrying Value	Carrying Value 31.3.2017	Carrying Value 31.3.2018	Carrying Value 31.3.2019	Carrying Value 31.03.2020	Carrying Value 31.03.2021
	£	£	£	£	£
CCLA Property Fund	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000
Schroders Bond Fund	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
UBS Multi Asset Fund	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
CCLA Diversification Fund	n/a	2,000,000	2,000,000	2,000,000	2,000,000
Total	10,000,000	12,000,000	12,000,000	12,000,000	12,000,000

	2016/17	2017/18	2018/19	2019/20	2020/21
Market Value	Market Value 31.3.2017	Market Value 31.3.2018	Market Value 31.3.2019	Market Value 31.03.2020	Market Value 31.03.2021
	£	£	£	£	£
CCLA Property Fund(mid-market value)	4,082,986	4,276,854	4,276,005	4,188,063	4,158,183
Schroders Bond Fund	2,963,563	2,912,837	2,865,130	2,539,938	2,908,911
UBS Multi Asset Fund	3,018,705	2,918,160	2,868,479	2,520,713	2,777,398
CCLA Diversification Fund(indicative market value)	n/a	1,921,257	1,982,167	1,804,193	1,955,874
Total	10,065,254	12,029,108	11,991,781	11,052,907	11,800,366

	2016/17	2017/18	2018/19	2019/20	2020/21
Surplus/(Deficit)	Surplus/ (Deficit) 31.3.2017	Surplus/ (Deficit) 31.3.2018	Surplus/ (Deficit) 31.3.2019	Surplus/ (Deficit) 31.03.2020	Surplus/ (Deficit) 31.03.2021
	£	£	£	£	
CCLA Property Fund	82,986	276,854	276,005	188,063	158,183
Schroders Bond Fund	(36,437)	(87,163)	(134,870)	(460,062)	(91,089)
UBS Multi Asset Fund	18,705	(81,840)	(131,521)	(479,287)	(222,602)
CCLA Diversification Fund	n/a	(78,743)	(17,833)	(195,807)	(44,126)
Total	65,254	29,108	(8,219)	(947,093)	(199,634)

Gross Revenue Yield	Yield 2016/17	Yield 2016/17	Yield 2017/18	Yield 2017/18	Yield 2018/19	Yield 2018/19	Yield 2019/20	Yield 2019/20	Yield 2020/21	Yield 2020/22
	£	%	£	%	£	%	£	%	£	%
CCLA Property Fund	164,434	4.03%	193,758	4.53%	183,989	4.30%	185,240	4.42%	179,910	4.33%
Schroders Bond Fund	127,340	4.30%	105,413	3.62%	120,508	4.21%	124,418	4.90%	125,529	4.32%
UBS Multi Asset Fund	100,600	3.33%	146,788	5.03%	116,513	4.06%	137,531	5.46%	140,171	5.05%
CCLA Diversification Fund	n/a	n/a	62,732	3.27%	67,030	3.38%	66,284	3.67%	62,069	3.17%
Total	392,375		508,691		488,040		513,473		507,679	

Surplus/(Deficit)- Capital Value	Surplus/ (Deficit) 2016/17	Surplus/ (Deficit) 2016/17	Surplus/ (Deficit) 2017/18	Surplus/ (Deficit) 2017/18	Surplus/ (Deficit) 2018/19	Surplus/ (Deficit) 2018/19	Surplus/ (Deficit) 2019/20	Surplus/ (Deficit) 2019/20	Surplus/ (Deficit) 2020/21	Surplus/ (Deficit) 2020/21
	£	%	£	%	£	%	£	%	£	%
CCLA Property Fund	(92,996)	-2.28%	193,868	4.53%	(849)	-0.02%	(87,942)	-2.10%	(29,880)	-0.72%
Schroders Bond Fund	16,634	0.56%	(50,726)	-1.74%	(47,707)	-1.67%	(325,192)	-12.80%	368,973	12.68%
UBS Multi Asset Fund	36,559	1.21%	(100,545)	-3.45%	(49,681)	-1.73%	(347,766)	-13.80%	256,685	9.24%
CCLA Diversification Fund	n/a	n/a	(78,743)	-4.10%	60,910	3.07%	(177,974)	-9.86%	151,682	7.76%
Total	(39,803)		(36,146)		(37,327)		(938,874)		747,460	

Net Yield	Net Yield 2016/17	Net Yield 2016/17	Net Yield 2017/18	Net Yield 2017/18	Net Yield 2018/19	Net Yield 2018/19	Net Yield 2019/20	Net Yield 2019/20	Net Yield 2020/21	Net Yield 2020/21
	£	%	£	%	£	%	£	%	£	%
CCLA Property Fund	71,438	1.75%	387,626	9.06%	183,140	4.28%	97,298	2.32%	150,030	3.61%
Schroders Bond Fund	143,974	4.86%	54,687	1.88%	72,801	2.54%	(200,774)	-7.90%	494,503	17.00%
UBS Multi Asset Fund	137,159	4.54%	46,243	1.58%	66,832	2.33%	(210,235)	-8.34%	396,856	14.29%
CCLA Diversification Fund	n/a	n/a	(16,011)	-0.83%	127,940	6.45%	(111,690)	-6.19%	213,751	10.93%
Total	352,572		472,545		450,713		(425,401)		1,255,139	

Peer to Peer Investment	2016/17	2016/17	2017/18	2017/18	2018/19	2018/19	2019/20	2019/20	2020/21	2020/21
Funding Circle	£	%	£	%	£	%	£	%	£	%
Carrying Value	2,003,355		2,075,341		2,056,664		1,831,028		863,160	
Interest Paid by Borrowers	181,892		181,014		184,654		193,170		127,982	
Less FC Service fee	(19,121)		(19,668)		(19,729)		(19,611)		(12,462)	
Promotions/Transfer payment							470		0	
Bad Debts	(58,163)		(61,288)		(111,152)		(127,649)		(80,881)	
Recoveries	8,219		14,780		27,428		30,253		42431.08	
Net Yield	112,827	5.63%	114,838	5.53%	81,201	3.95%	76,634	4.19%	77,070	8.93%
Provisions for future losses	0		0		(10,000)					

*Funding Circle Net yield - this has been calculated against the current value, however principal has been withdrawn throughout the year. If calculated against the average of the opening and closing value then the net yield would be 5.7%

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Tandridge District Council

REPORT ON THE FORENSIC REVIEW AND FACT-FINDING INVESTIGATION INTO A POTENTIAL BUDGET GAP FOR 2020/21 AND ITS IMPLICATIONS FOR 2021/22

7 SEPTEMBER 2021

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Tandridge District Council
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For the attention of:
Anna D'Alessandro – Chief Finance Officer

7 September 2021

Dear Anna

FORENSIC REVIEW AND FACT-FINDING INVESTIGATION INTO A POTENTIAL BUDGET GAP FOR 2020/21 AND ITS IMPLICATIONS FOR 2021/22

We have pleasure in enclosing a copy of our report in accordance with our Engagement Letter dated 16 June 2021. This document (the **Report**) has been prepared by Grant Thornton UK LLP (**Grant Thornton**) for Tandridge District Council (the **Addressee** or the **Council**) in connection with the forensic review and fact-finding investigation of potential budget gap for 2020/21 and its implications for 2021/2022 (the **Purpose**).

We stress that the Report is strictly private and confidential and prepared for the Addressee only. We agree that an Addressee may disclose our Report to its professional advisers in relation to the Purpose, or as required by law or regulation, the rules or order of a stock exchange, court or supervisory, regulatory, governmental or judicial authority without our prior written consent but in each case strictly on the basis that prior to disclosure you inform such parties that (i) disclosure by them is not permitted without our prior written consent, and (ii) to the fullest extent permitted by law we accept no responsibility or liability to them or to any person other than the Addressee.

The report should not be used, reproduced or circulated for any other purpose, in whole or in part, without our prior written consent, such consent will only be given after full consideration of the circumstances at the time. These requirements do not apply to any information, which

is, or becomes, publicly available or is shown to have been made so available (otherwise than through a breach of a confidentiality obligation).

To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Addressee for our work, our Report and other communications, or for any opinions we have formed. We do not accept any responsibility for any loss or damages arising out of the use of the Report by the Addressee(s) for any purpose other than in relation to the Purpose.

PERIOD OF OUR FIELDWORK

Our fieldwork was performed in the period between 16 June 2021 and 10 August 2021. We have not performed any fieldwork since 10 August 2021 and, our Report may not take into account matters that have arisen since then. If you have any concerns in this regard, please do not hesitate to let us know.

SCOPE OF WORK AND LIMITATIONS

Our work focused on the areas set out in our Engagement Letter. Our assessment of the affairs of the Tandridge District Council does not constitute an audit in accordance with Auditing Standards and no verification work has been carried out by us and consequently we do not express an opinion on the figures included in the Report.

The scope of our work has been limited both in terms of the areas of the business and operations which we have assessed and the extent to which we have assessed them. There may be matters, other than those noted in the Report, which might be relevant in the context of the Purpose and which a wider scope assessment might uncover.

We would like to draw attention to the fact that we requested to have access to the Council's former Interim Chief Finance Officer, however we have had no contact with him and we have not been able to interview this individual. This is a limitation of scope.

FORMS OF REPORT

For your convenience, the Report may have been made available to you in electronic as well as hard copy format, multiple copies and versions of the Report may therefore exist in different media and in the case of any discrepancy the final signed hard copy should be regarded as definitive.

GENERAL

The Report is issued on the understanding that the management of the Tandridge District Council have drawn our attention to all matters, financial or otherwise, of which they are aware which may have an impact on our Report up to the date of signature of this Report. Events and circumstances occurring after the date of our Report will, in due course, render our Report out of date and, accordingly, we will not accept a duty of care nor assume a responsibility for decisions and actions which are based upon such an out-of-date report.

Additionally, we have no responsibility to update this Report for events and circumstances occurring after this date.

Notwithstanding the scope of this engagement, responsibility for management decisions will remain solely with the directors of the Council and not Grant Thornton. The directors should perform a credible review of the recommendations and options in-order-to determine which to implement following our advice.

Yours faithfully

Grant Thornton UK LLP

Grant Thornton UK LLP

OVERVIEW

- 1.1 In April 2021 the Council's finance team identified an error in the 2020/21 budget that had been approved by Council in February 2020. The error resulted in an unplanned and unmitigated cost pressure of £920,500, which is a significant figure. We have been informed by Council finance officers that the budget gap may have arisen due to potentially incorrect accounting entries made during the budget preparation in 2020/21. This has potential implications for the accuracy of the 2021/22 budget, approved by Council in February 2021.
- 1.2 In accordance with our Engagement Letter, we have undertaken the investigation to identify the events that led to the budget gap for 2020/21 and describe the financial impact and implications for the budget position in both 2020/21 and 2021/22. We have also considered why the error was not mitigated by the Council's system of internal financial control, identified applicable control deficiencies relevant to the error, assessed the residual risk posed by these deficiencies and made recommendations which may to help prevent similar errors occurring in future (identified solely as result of performing our work under this engagement).
- 1.3 It should be noted that the findings set out in this Report are based on the documents made available for review, with key context provided by interviews of selected members of the finance team. Also, we requested to have access to the former Interim Chief Finance Officer, however we have had no contact with this individual.

KEY FINDINGS - FINANCIAL IMPACT

- 2.1 We have identified that there was an unfunded revenue deficit of £920,500 within the 2020/21 outturn position, that was not detected and reported during the year. The implications of this are that the Council's outturn position is £920,500 less favourable than had been expected, and the Council will have to fund this from corporate surpluses or reserves and adjust the opening reserves position for 2021/22, accordingly. For illustration, this deficit represents over 8.7% of the £10,559,732 net budget for 2020/21.
- 2.2 It also appears that this error was not identified during the 2021/22 budget setting process and was therefore rolled forward as part of the baseline budget for 2021/22, that was approved by Council in February 2021. This means that its impact will continue to be relevant for the general fund in each financial year, until it is resolved.
- 2.3 We note that the rolled forward General Fund Reserve level for 2021/22 was £3.4 million (excluding capital and reserves earmarked for specific uses). This was projected to increase to £4.8 million by the end of the financial year 2021/22. Therefore, the financial impact of these errors on the Council's ongoing financial resilience is potentially significant. An assessment of the Council's ongoing financial resilience is outside the scope of this report.

KEY FINDINGS – CHRONOLOGY OF KEY EVENTS

- 2.4 On 3 February 2020 the Council set a draft Budget of £11,264,732 for 2020/21 which was approved (subject to ratification by the full Council) by the Strategy & Resources Committee on 3 February 2020. This contained business rate income of £2.687m, an increase of £0.629m compared with the prior year's budget of £2.058m.
- 2.5 The increase was not identified or explained in a report setting out the Council's proposed budget for 2020/21, which was provided to the Strategy & Resources Committee on 3 February 2020. The Interim Chief Finance Officer was asked¹ why budget business rate income had increased against the prior year during a meeting of the Strategy & Resources Committee on 3 February 2020. He was unable to fully explain the increase.
- 2.6 The 2020/21 budget was prepared approximately between September 2019 and January 2020. During this period, a decision was made to re-state the way that figures were presented in the Medium-Term Financial Strategy (MTFS). We have not been able to confirm whether this was initiated by the Interim Chief Finance Officer or his predecessor. This period coincided with the departure of the incumbent Chief Finance Officer and the S151 Officer in November 2019, and the appointment of the then Interim Deputy Chief Finance Officer as the Interim Chief Finance Officer.
- 2.7 The restatement of the MTFS was questioned during the 3 February 2020 meeting². Our work has shown that the restatement was not done correctly, resulting in an overstatement of income of £705,000, and a corresponding error in the total net budget. A restated MTFS working paper was used to underpin the draft 2020/21 budget presented to the Strategy and Resources Committee on 3 February 2020. At that stage the budget figures for business rate income were challenged by a member of that Committee, however the draft budget was then approved³ subject to ratification by Full Council.
- 2.8 In the days following the 3 February Strategy and Resources Committee, the Interim Chief Finance Officer and his team reviewed the figures and made a correction to the budget, reducing business rate income in the draft budget by £705,000. The Interim Chief Finance Officer sent an email to members on 7 February 2020 to address this (and other changes) to the 2020/21 budget. The email referred to a "*review of the very latest forecasts*" but did not attach the forecasts or provide any further explanation for the change.

¹ By Councillor Kevin Bourne

² By Councillor Kevin Bourne

³ Four Councillors voted against the budget

- 2.9 This correction created a funding gap in the budget that needed to be resolved before the budget was presented to full council on the 13 February 2021.
- 2.10 Between 3 February and 13 February 2020, selected cost lines appear to have been removed from the pensions related budgets to the value of £920,500. This had the effect of funding the £705,000 shortfall of income from business rates noted above and reducing the planned draw on reserves by £215,000.
- 2.11 The pensions 'cost' lines which appear to have been removed from the budget related to notional technical accounting entries and were directly related to a series of other 'income' lines which together netted off to zero. The removal of only the 'cost' side of these corresponding entries should not have occurred, as it had the effect of leaving in £920,500 of 'income' budget for which no real cash inflow could be obtained.
- 2.12 We have been advised that the relationship between the 'cost' and 'income' entries was not directly apparent in a list of cost centres used in the financial system and monitoring reports. Our interviews with finance officers, including the business partner responsible for the pensions budgets, indicated that the nature of these budget lines was not properly understood, following a number of changes in roles and key personnel within finance. There was an understanding that these lines were 'notional' budgets that were not required within the revenue budget, but this had become confused with them being 'unused' budgets that provided what seemed to be an opportunity to remove costs from the budget.
- 2.13 A revised budget of £10,559,732 was prepared based on the draft budget with two alterations⁴ to business rate income and pensions, as explained in a report to Full Council dated 13 February 2020. The revised budget was approved by Full Council on this date. The fact that adjustments had been made to business rate income, pension costs and reserves was disclosed to members in the report. The report explained that the reduction in forecast business rate income was based on "*the latest information*" but did not explain what additional or revised information had been applied to merit the change in the budget. During our review, the finance team was not able to identify what the reference to new information referred to, however the change in forecast business rate income appears to have been necessary because of the mathematical errors that had been identified in the MTFS.
- 2.14 We note that the reason for the reduction in pension costs given in the report to members on 13 February referred to a reduction in pension strain liabilities. Prior to the 13 February report, email correspondence dated 7 February 2020 between the former Interim Chief Finance Officer and members shows that the reduction in pension costs was linked to notification from the Surrey County Council pension fund.

⁴ The change in the use of General Fund Reserves being a balancing figure

- 2.15 The audio recording of the meeting on the 13 February, shows that, in response to questioning⁵, the Interim Chief Finance Officer spoke to justify the changes to the budget made since 3 February 2020, and in particular, that the adjustment to pensions was due to information provided by the Surrey County Council pension fund.
- 2.16 We have reviewed the letter from the Surrey County Council pension fund as well as other related financial information. The notification when considered in conjunction with other evidence does not provide justification for the reduction in pension fund costs of £920,500. Whether the letter from the Surrey County Council pension fund justified an ongoing reduction in annual costs was questioned⁶ on 13 February 2020 in a meeting of the full Council. The budget for 2020/21 was then approved.
- 2.17 The removal of pensions costs and the corresponding shortfall of budgeted pensions income of £920,500 was not detected as part of the budget monitoring process throughout 2020/21. This was because, as had been the convention in prior years, the budgeted notional pensions accounts were forecast to deliver to budget. As previously noted, the relationship between the 'cost' and 'income' sides of the notional pension entries was not clearly identifiable within the chart of accounts. Discussion with the finance team members involved in budget setting and monitoring during the period from 2019/20 and 2021/22, including the accountant with responsibility for these cost centres, indicates that these budget lines were not fully understood. While the entries netted off to zero, as they are said⁷ to have done prior to February 2020, they had no impact on the budget. However, the finance team remained unaware that the removal of one side of the entries in the 2020/21 budget had changed this dynamic.
- 2.18 In June 2020, the Interim Chief Finance Officer left the Council and the current Chief Finance Officer was appointed on secondment from Surrey County Council. Based on interviews with finance officers, including the current Chief Finance Officer, it appears that detailed corporate knowledge of the adjustments that had been made to the 2020/21 budget that was vested in the Interim Chief Finance Officer was lost and/or was not directly passed on to the new Chief Finance Officer in the form of working papers or other means.
- 2.19 Between September 2020 and February 2021, the finance team prepared the budget for 2021/22. The lead officer preparing the budget was new to the Council, having been brought in on secondment from Surrey County Council in common with the current Chief Finance Officer. The lead officer and the Chief Finance Officer were not aware of the potential issues within the 2020/21 budget as they had not been directly involved, nor were they informed of the potential issue by existing members of the finance team, who

⁵ Councillor Kevin Bourne

⁶ Councillor Kevin Bourne

⁷ TDC has been unable to locate historic working papers which show precisely how TDC's budget was calculated

were also unaware of the problem at this point. The notional pensions 'income' lines had been reported with a forecast outturn equal to budget during the year, so the issue was not detected through this process.

- 2.20 The decision was therefore made by the Chief Finance Officer to use the 2020/21 budget as the starting point for the 2021/22 budget, as from the finance team's perspective, there was no reason to doubt the validity of the figures. The 2021/22 budget was duly prepared and approved by Full Council in February 2021. This budget also included the over estimation of income of £920,500 which had been carried forward.
- 2.21 In April 2021, the finance team started to prepare the 2020/21 year end outturn report and at this point it was noted that the pensions budget was £920,500 overspent. This had crystallised because in contrast to what had been forecast, by the end of the year there was no actual income to set against this notional 'income' budget.

KEY LEARNING POINTS AND RECOMMENDATIONS

- 2.22 We have reviewed the circumstances surrounding the errors identified above from the perspective of the exercise of financial controls. The purpose of this section is to consider the extent to which effective controls were in place or were executed appropriately, and where this was not the case, to make recommendations for improvement that could help the Council to mitigate the risk of similar issues arising in future.
- 2.23 We found certain weaknesses in the financial control environment that contributed to the errors arising in the first place, and subsequently prevented them being detected until after the end of the financial year 2020/21. Our recommendations for improvement fall into four key categories and are outlined in the tables below:

CONTROLS OVER THE PREPARATION OF THE BUDGET AND MTF5

No.	Recommendation
1	When the draft budget and MTF5 is being prepared, the opening budget baseline should be reconciled to the prior year's approved budget and any variances should be fully reconciled (e.g. to in year virements).
2	The current year proposed budget, and future projections in the MTF5, should be subject to analytical review at directorate and cost centre level, to ensure that all movements away from the baseline opening budget reconcile to known adjustments (e.g. savings and pressures).
3	Segregation of duties should be re-established between the calculation of all key budget items (such as business rates) with review and approval undertaken by the Chief Finance Officer.
4	The Council should ensure that the finance team includes or has appropriate access to sufficient skills and capacity to undertake key calculations, including calculation of business rates, to enable the Chief Finance Officer to function effectively in a review and approval role.
5	The Council should undertake a skills and training needs assessment of the finance team and provide targeted investment in staff development where it will have most impact. The Council should also consider whether skills gaps are best addressed through targeted recruitment.

THE BUDGET MONITORING PROCESS

No.	Recommendation
6	We recommend that the monthly budget monitoring information provided to budget holders is improved to incorporate greater focus on comparison to the prior year budget and the expected profile of the budget throughout the year, with greater focus on documenting and challenging the basis by which budget outturn has been forecast.
7	Within the monitoring information, the inclusion of budget lines that have zero budget in the current year, but did have budget in the prior year should be considered as a failsafe measure. This could provide a useful reference point to monitor the impact budget changes may be having on current year variances. (Note that this could have highlighted the removal of one half of the £920,500 pensions costs, enabling it to be questioned early in 2020/21).

STRENGTHENING CORPORATE BUDGET RESPONSIBILITY

No.	Recommendation
8	The list of cost centres should be reviewed to ensure that each one is assigned a responsible budget holder and Finance Manager, and that these responsibilities are fully communicated and understood by the named individuals. This can be augmented by asking budget holders to sign a written declaration that they have agreed and accept responsibility for their assigned cost centres (a Budget Accountability Statement).
9	The Council should make sure that the ownership of and responsibility for budgets, is fully enshrined in the Council's Constitution and Scheme of Delegation, so that individuals can clearly and directly be held accountable for budget management. To support this, the Council should consider the establishment of a separate Scheme of Financial Delegation that sets out the respective financial responsibilities of roles and grades in detail.
10	All budget holders and supporting finance business partners should review all the list of cost centres they are responsible for and ensure that the purpose and relevance of these is fully understood. Council policy should make clear that the onus is on the individual to make sure they have the level of understanding required.

No.	Recommendation
11	There are a number of ways that adjustments to the draft budget could have been subject to tighter financial control, where segregation of duties is difficult to maintain (for example, in regard to corporate items adjusted only at year end). We recommend, the implementation of a schedule of adjustments that requires dual sign-off by both Chief Finance Officer and Deputy Chief Finance Officer to confirm that all adjustments have been reviewed independently of the author (e.g. via an e-mail confirmation).
12	The Council should review its chart of accounts to make sure it properly reflects current operations and desired approach to financial control. In particular, we recommend that the list of cost centres is reviewed and unused or unnecessary cost centres are removed or rationalised as part of the 2022/23 budget setting process.
13	We recommend that within the next two years, the Council undertakes a targeted zero-based budgeting exercise to fully refresh the budget and its cost centres, to ensure they align to current needs and services, and to strengthen the ownership and responsibility among budget holders and responsible management accountants. This should initially focus on Strategy and Resources and Corporate budgets.

DEVELOPING A STONG FINANCIAL CULTURE

No.	Recommendation
14	The Council should consider how it can strengthen the Council's financial culture, building characteristics such as professional scepticism, self-review and empowerment to challenge management, starting with the finance team.
15	The Council should review and update its Financial Regulations, with particular focus on embedding the control improvements recommended in this report. This should be supplemented by detailed documented financial procedures where appropriate.

NEXT STEPS

3.1 The Council should consider the following next steps:

- Develop a strategy on the budget deficits identified in 2020/21 and 2021/22 can be mitigated, without depleting reserves to an extent that poses a risk to ongoing financial resilience.
- Consider whether the facts outlined in this report warrant further investigation or action and determine how this will be taken forward.
- Decide whether the design and implementation of the recommendations in this report require further support to deliver.
- In the context of the wider financial position and the financial impact of the removal of pensions budgets, consider whether a wider review of the Council's financial resilience is warranted.



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Forensic Review and Fact Finding – TDC response to the Grant Thornton report

Strategy & Resources Committee - Tuesday, 14th September 2021

Report of: Chief Finance Officer (s151)

Purpose: To note the Council's response to the Grant Thornton Review into the Council's potential Budget Gap for 2020/21 and the financial implications for 2021/22 and approve the proposals to close the gap into the medium-term.

Publication status: Unrestricted

Wards affected: All

Executive summary:

- At Strategy & Resources (S&R) Committee on 8th June, Grant Thornton LLP UK (Grant Thornton) was commissioned to undertake a forensic review and fact finding into a potential budget gap for the Council in 2020/21 and the financial implications in 2021/22.
- Grant Thornton has now completed that work and has identified a number of recommendations for the Council to take forward, which the Council has accepted. This report identifies the financial implications of the c£920k gap in 2020/21, the means by which the gap will be closed in 2021/22 and 2022/23.

This report supports the Council's priorities of:

- Creating the homes, infrastructure and environment we need
- Supporting economic recovery in Tandridge
- Becoming a greener, more sustainable district

Contact officer Anna D'Alessandro
adalessandro@tandridge.gov.uk

Recommendation to Committee:

That the Committee notes the response to the Grant Thornton report and approves the proposals to close the gap for financial years 2020/21 to 2022/23 and the Action Plan to take forward the recommendations in **Annex A**.

Reason for recommendation:

It is important that Members of this Committee are appraised of the financial implications of the report and the Action Plan which addresses the findings of the review.

1. Introduction and background

- 1.1 On 8th June, it was agreed by Members of the Committee to commission Grant Thornton LLP UK to undertake a Fact Finding and Forensic Review into a potential budget gap for 2020/21, and the implications for 2021/22.
- 1.2 Grant Thornton has now completed this review and their report is presented at agenda item 5.1.
- 1.3 Upon discovery of this potential gap of c£920k, a detailed internal investigation was carried out to determine whether there was a gap and its nature. The internal investigation left many questions unanswered due to its complex nature and as a result an independent review was commissioned.
- 1.4 The Grant Thornton Review is now complete and has identified that there was in fact a gap, resulting from the 2020/21 budget setting process and they undertook a rigorous process to come to this conclusion. They have set out 15 recommendations which ensure the Council has a better grip on its financial controls moving forward. The Council accepts all the recommendations proposed. Some of the recommendations have already been completed however the majority will be incorporated into the Tandrige Finance Transformation Programme (TFT), **Annex A** - the Action Plan.
- 1.5 This report identifies the means by which the gap has been closed in 2020/21 (as set out in the 2020/21 Outturn Report, also on the agenda for this meeting) and the proposal to close the gap for 2021/22 and 2022/23.

2. Proposals to close the budget gap 2020/21 to 2022/23

2.1 2020/21 Budget Gap

- The 2020/21 Outturn Report was due to be presented to S&R in June 2021. This was put on hold pending the outcomes of the Grant Thornton Review. The Outturn will be presented to Members as a separate report. The Outturn Report sets out that for 2020/21 the Council is in surplus by £885k. Although the £920k gap does in fact present itself as a problem in 2020/21, there have been significant underspends in other areas across the Council to offset it. The detailed financial position can be found in 2020/21 Outturn Report.

2.2 2021/22 Budget Gap

- Given that the c£920k gap is a base budget issue (i.e. of an ongoing/permanent nature) the financial implications will manifest themselves as pressures in 2021/22 and 2022/23 (and possibly beyond).
- Given the significant underspend/surplus in 2020/21, it is proposed to undertake a line-by-line review of all budget lines for M6 Reporting to determine those budgets that can be permanently reduced in 2021/22. These reviewed budgets will then form the basis of 2022/23 Budget setting.
- At the time of setting the 2021/22 Budget (approved by Full Council in February 2021), the Budget proposed a build to the Council's reserves of c£1.3m. This mechanism was adopted to build the Council's reserves back up to pre-Customer First levels over the next 2-3 years. Although, this total is unlikely to be added to the General Fund reserves as a result of this gap, if this strategy had not been adopted for 2021/22 budget setting there would have had to have been a large call on existing Reserves.
- Once the line-by-line review has been undertaken and surplus budgets established, the balance will then have to come from General Fund reserves. The opening Balance of General Fund reserves as at 31st March 2021 is c£3.4m rising to £4.8m to 31st March in 2021/22 (with the inclusion of the £134k from the outturn report to support medium-term financial challenges), if base budgets are delivered as well as the £2.7k Savings Programme. As such there are sufficient Reserves to close the gap, even if the entire £920k was required.
- The Council will also need to ensure that the £2.7m Savings Programme, set to balance the 2021/22 budget, and the Committee base budgets are delivered in full. Any non-delivery of the Savings Programme or overspends against base budgets will require a larger draw down of reserves. The opposite is true however that any underspends against base budgets implies that money can be put back in reserves to provide greater cushioning into the medium-term.

- Monthly financial reports to S&R have been put on hold pending the outcomes of the Grant Thornton Review. A Month 4 Report will be provided to the Committee meeting in October.
- There is also a Contingency of £117k to support the Council against overspends in 2021/22. This was established as part of 2021/22 Budget setting to provide in-year resilience.

2.3 **2022/23 Budget Gap and Twin Track process for 2023/24**

- As discussed above, this gap is of an ongoing nature and as such impacts all future years unless **permanent** reductions to cost or increases to income can be generated.
- The 2022/23 and MTFS budget setting process commenced in May 2021, significantly earlier than previous financial years. However, this work was also on hold pending the outcomes of the review. At the time, the anticipated Corporate budget gap was c£800k however the 2020/21 budget gap adds c£920k of pressure and takes the Corporate gap to c£1.7m. This is prior to Directorates adding in their own pressures. As the Council adopts a budget envelope approach, Directorates will then have to find compensating savings to close their gap. It is anticipated once all these pressures have been identified the **Council's overall gap is likely to rise to c£2m**. This will need to be found in 2022/23 so the Council can set a balanced budget in February 2022. The line-by-line review may reduce this gap however we cannot ascertain this at present so best to work on a worst case scenario.
- If savings found in 2022/23 are not of a permanent nature (either cost or income) or if the further use of reserves is required to close the gap, this will have repercussions in 2023/24 i.e. additional savings will be required in future years.
- With the review finalised, work has recommenced in earnest and timetable and process established. The proposed approach has been discussed since circa mid-July with Group and Deputy Group Leaders.
- Wash-up sessions were held with Members at the end of July to identify potential improvements to the 2022/23 budget setting process. At this point, it was also identified that greater oversight of the budget was to be had through fortnightly Group Leader meetings.
- Brainstorming sessions have been established with ELT and through Department Leadership Team (DLT) meetings to identify pressures and savings options. These are being undertaken over the course of August/September.
- There is now an even greater financial challenge for the Council in the medium-term, as such it is imperative that Council approaches budget setting in a very different way to the traditional/siloed/vertical way of finding savings. This traditional approach will be necessary and largely relied upon for 2022/23 given the timescales, but has been largely exhausted as a mechanism for future years.

- At a Group Leaders' meeting in mid-July (as well as at the Member wash-up sessions) a Twin Track approach to budget setting was set out. Track 1 being 2022/23; setting a budget in the traditional way with a different stance taken for 2023/24 and the MTFs. Track 2 will require a more innovative/cross-cutting/horizontal way of finding savings through a Council-wide Strategic Improvement Programme. The nature of a Twin Track approach is that both tracks are undertaken simultaneously to allow the 2022/23 Budget to be set for February 2022 and allow enough planning for the 2023/24 Improvement Programme to start delivering full-year effects from April 2023. At the heart of the second track will be how the Council makes the changes necessary for it to become financially sustainable and resilient in the medium-term through different delivery models and sharing opportunities. The Council cannot be financially sustainable in isolation. Any quick wins will be taken in 2022/23, albeit likely to be part-year impacts.
- A senior appointment will be made to drive forward this programme of change reporting directly to the Chief Executive, working closely with Members, ELT and Officers. Establishing this second track now will provide the Council with the planning time required to establish the programme including, workstreams of activity, investment for change, engagement and communications (internally and externally) and governance arrangements.
- This Improvement Programme will be funded from Flexible Capital Receipts so long as the criteria for its use is met; provision of future savings or cost containment.
- Member workshops have been timetabled for mid-September and the Twin Track approach will be discussed further. This session is firmly aimed at ensuring that all pressures have been identified and compensating savings can be identified to close Committee/Department gaps.
- It is important to note that Planning has not been given a budget target for 2022/23. A business case is currently in development, as a result of the PAS report, to determine the level of investment required and the payback on that investment over the medium-term.

2.4 **Action Plan to address Findings of the Review**

- The Grant Thornton Review set out 15 recommendations to provide us with a framework to create an environment of more robust financial controls in the future and potentially mitigate a recurrence of financial shortfalls or of this magnitude.
- The Council accepts all the recommendations proposed and has attached an Action Plan to address those findings at **Annex A**.
- A status update provided on all actions and their implementation will be monitored as part of the TFT throughout 2021/22.

Key implications

Comments of the Chief Finance Officer

All financial comments have been included in the body of this report.

Comments of the Head of Legal Services

The work commissioned by Grant Thornton is a significant activity and vital to ensure that any implications are understood by the Council and that Members are briefed of the recommendations.

The Council has a duty under S151 of the Local Government Act 1972 to make arrangements for the proper administration of their financial affairs. To effectively discharge this duty, these arrangements include Council policies and procedures which protect the public purse through managing the risk of error.

Equality

None

Climate change

None

Annexes:

Annex A – Action Plan to address controls over the preparation of the Budget & MTFS

Background papers

None

----- end of report -----

ANNEX A:

ACTION PLAN TO ADDRESS CONTROLS OVER THE PREPARATION OF THE BUDGET AND MTFS

No.	Recommendation	Officer Responsible & Target Date	Mitigating Action
1	When the draft budget and MTFS is being prepared, the opening budget baseline should be reconciled to the prior year's approved budget and any variances should be fully reconciled (e.g. to in year virements).	Complete	Agreed. 21/22 Budget as set out in the Council Report (Feb 20) is now reconciled to Agresso budget to ensure both the detailed budget and Budget movements are clearly actioned. Any movements to budget lines in 2021/22 will be reported in monthly finance reports in a virements schedule
2	The current year proposed budget, and future projections in the MTFS, should be subject to analytical review at directorate and cost centre level, to ensure that all movements away from the baseline opening budget reconcile to known adjustments (e.g. savings and pressures).	Complete	Agreed. Budgets as set out in Council Papers are now reconciled to the Agresso budget to ensure both the detailed budget and adjustments (including pressures and savings) are correct
3	Segregation of duties should be re-established between the calculation of all key budget items (such as business rates) with review and approval undertaken by the Chief Finance Officer.	Complete	Agreed. The re-establishment of this segregation was undertaken as part of setting the 21/22 Budget with the secondment of a SCC Officer (Business Partner – Corporate) leading the budget process and the review of all assumptions was undertaken by the CFO
4	The Council should ensure that the finance team includes sufficient skills and capacity to undertake key calculations, including calculation of business rates, to enable the Chief Finance Officer to function effectively in a review and approval role.	Technical validation – complete Skills and Capacity to be included in TFT	Agreed. All assumptions which underpinned the 21/22 Budget setting process were reviewed by the CFO. For technically complex issues (such as business rates) professional support and advice

No.	Recommendation	Officer Responsible & Target Date	Mitigating Action
		delivered for April 2022	was sought to validate assumptions. Work on bolstering skills and capacity will be undertaken as part of the Tandridge Finance Transformation Programme (TFT) - discussed further below
5	The Council should undertake a skills and training needs assessment of the finance team and provide targeted investment in staff development where it will have most impact. The Council should also consider whether skills gaps are best addressed through targeted recruitment.	To be included in the TFT delivered for April 2022	Agreed. The Council is entering into a Joint Working Agreement with the County. As part of this the Council will be implementing a TFT. This programme includes a number of workstreams one of which is a new Target Operating Model (TOM) for Finance. As part of the new TOM, suitability for new roles will be tested against Behaviour, Skills and Knowledge criteria (including technical capability). This process will also determine key skills gaps which will be picked up by other workstreams within the TFT. Through the TFT and the joint agreement with the County, oversight in key (particularly) technical areas in Corporate Finance will be provided.

THE BUDGET MONITORING PROCESS

No.	Recommendation	Officer Responsible & Target Date	Mitigating Action
6	We recommend that the monthly budget monitoring information provided to budget holders is improved to incorporate greater focus on comparison to the prior year budget and the expected profile of the budget throughout the year, with greater focus on documenting and challenging the basis by which budget outturn has been forecast.	To be included in the TFT delivered for April 2022 Programme	Agreed. At Directorate level this detail this can be a helpful indicator. However, in 21/22 there has been significant realignment of posts (eg: Case Workers) across the Council and increased costs due to CV-19 that make comparisons less meaningful when comparing against 20/21 budgets. This will be picked up through the Business Partnering (Insights function) in the TFT as part of monthly budget monitoring for 22/23 (comparison of 22/23 with 21/22)
7	Within the monitoring information, the inclusion of budget lines that have zero budget in the current year but did have budget in the prior year should be considered as a failsafe measure. This could provide a useful reference point to monitor the impact budget changes may be having on current year variances. (Note that this could have highlighted the removal of one half of the £920,500 pensions costs, enabling it to be questioned early in 2020/21).	To be included in the TFT delivered for April 2022 Programme	Agreed. Items which move from a budget to a zero budget in-year will be included in budget monitoring and will not be dealt with on a variance basis. Rethinking monthly reporting; format, contents and key risks and variances will be included as part of the TFT

STRENGTHENING CORPORATE BUDGET RESPONSIBILITY

No.	Recommendation	Officer Responsible & Target Date	Mitigating Action
8	The list of cost centres should be reviewed to ensure that each one is assigned a responsible budget holder and Finance Manager, and that these responsibilities are fully communicated and understood by the named	To be included in the TFT delivered for April 2022 Programme	Agreed. We see this work being undertaken in 2 phases

No.	Recommendation	Officer Responsible & Target Date	Mitigating Action
	individuals. This can be augmented by asking budget holders to sign a written declaration that they have agreed and accept responsibility for their assigned cost centres.		<p>Phase 1 – Roles & Responsibilities and Training Clarifying roles and responsibilities of budget holders and ensure they understand their responsibilities and are fully trained to manage their budgets</p> <p>Phase 2 - Budget Accountability Statements (BAS). Produce BAS for 22/23 whereby budget holders agree and sign that they take responsibility for living within their budget envelope for both Revenue and Capital</p>
9	The Council should make sure that the ownership of and responsibility for budgets, is fully enshrined in the Council's Constitution and Scheme of Delegation, so that individuals can clearly and directly be held accountable for budget management. To support this, the Council should consider the establishment of a separate Scheme of Financial Delegation that sets out the respective financial responsibilities of roles and grades in detail.	To be included in the TFT delivered for April 2022Programme	Agreed. As part of the TFT the Council will be reviewing its Scheme of Delegation and Financial Regulations which will be cascaded to all budget holders. This will be complete by end of March 2022 for monitoring against the 2022/23 budget
10	All budget holders and supporting finance business partners should review all the list of cost centres they are responsible for and ensure that the purpose and relevance of these is fully understood. Council policy should make clear that the onus is on the individual to make sure they have the level of understanding required.	To be included in the TFT delivered for April 2022Programme	<p>Agreed. See responses under (8) with the following additions:</p> <p>Phase 1 – a mapping of cost centres to budget holders will be undertaken. In parallel with this a budget holder survey will be used to gauge budget holders current level of understanding and to inform training needs. Appropriate targeted education and training will be undertaken as part of the TFT.</p>

No.	Recommendation	Officer Responsible & Target Date	Mitigating Action
			Council policy will be updated to make clear budget holders' roles and responsibilities.
11	There are a number of ways that adjustments to the draft budget could have been subject to tighter financial control, where segregation of duties is difficult to maintain (for example, in regard to corporate items adjusted only at year end). We recommend, the implementation of a schedule of adjustments that requires the dual signature of both Chief Finance Officer and Deputy Chief Finance Officer to confirm that all adjustments have been reviewed independently of the author.	To be included in the TFT delivered for April 2022 Programme	Agreed. The current monitoring of Corporate Items ensures these items are subject to similar rigours as other Directorate/Committee budget lines. For the M6 all budget lines will be reviewed including Corporate Items and all adjustments to budget lines will be reported through monthly Finance Reports via a Budget Virements schedule. Virements will be reported in the same way whenever there is a change to budgets in-year.
12	The Council should review its chart of accounts to make sure it properly reflects current operations and desired approach to financial control. In particular, we recommend that the list of cost centres is reviewed and unused or unnecessary cost centres are removed or rationalised as part of the 2022/23 budget setting process.	To be included in the TFT delivered for April 2022 Programme	Agreed. A review of the entire Chart of Accounts and Financial Statement mapping is required to strengthen reporting and segregation between management and statutory/technical accounting. This will be undertaken as part of the TFT and implemented for 22/23.
13	We recommend that within the next two years, the Council undertakes a targeted zero-based budgeting exercise to fully refresh the budget and its cost centres, to ensure they align to current needs and services, and to strengthen the ownership and responsibility among budget holders and responsible management accountants. This should initially focus on Strategy and Resources and Corporate budgets.	To be implemented for 2023/24 Budget setting process	Agreed. Although we do agree that this will be a useful exercise to understand the true cost of services, this is a substantial piece of work. For 22/23 the TFT will focus on having a tighter grip on financial controls, reporting, roles/ responsibilities/ accountabilities, improved end-to-end processes (including automation where possible), capacity and capability. A zero-based budgeting exercise can be

No.	Recommendation	Officer Responsible & Target Date	Mitigating Action
			undertaken as part of the 23/24 budget setting process. In the meantime, a line-by-line review has been undertaken for all pay related cost centres for S&R and a full review of all 21/22 budgets will be undertaken for M6 reporting. This will form the basis for the roll-over of budgets for 22/23.

DEVELOPING A STONG FINANCIAL CULTURE

No.	Recommendation	Officer Responsible & Target Date	Mitigating Action
14	The Council should consider how it can strengthen the Council's financial culture, building characteristics such as professional scepticism, self-review and empowerment to challenge management, starting with the finance team.	To be included in the TFT delivered for April 2022 Programme	Agreed. This culture change will take some time but will be embodied as part of the Joint Working Agreement with the County and new TOM, ensuring that professional scepticism and curiosity and self-review, proactivity and peer challenge are encouraged and embraced. The TFT contains an Organisational Development workstream to build stronger financial management and accountability both within and outside of Finance.
15	The Council should review and update its Financial Regulations, with particular focus on embedding the control improvements recommended in this report . This should be supplemented by detailed documented financial procedures where appropriate.	To be included in the TFT delivered for April 2022 Programme	Agreed. We see this work being undertaken in 2 phases Phase 1: As part of the TFT the Council will be reviewing its Scheme of Delegation and Financial Regulations which will be cascaded to all budget

			<p>holders. This will be complete by end of March 2022 for monitoring against the 2022/23 budget</p> <p>Phase 2: Review of all financial procedures and communicated through but published is in one location. This would have to align to the Regulations and be completed after the Regulations have been approved</p> <p>All recommendations in this report will be taken into the TFT to ensure they are implemented.</p>
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Note – the detailed activities and therefore timelines associated with the TFT are currently in development. The actions identified above which form part of the TFT will be monitored through the TFT Programme governance to ensure delivery.

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