

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

## Strategy & Resources Committee - Tuesday, 14<sup>th</sup> 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.

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Publication status: Unrestricted

Wards affected: All

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### Executive summary:

- At Strategy & Resources (S&R) Committee on 8<sup>th</sup> 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.

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### 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

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## **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**.

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## **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.

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### **1. Introduction and background**

- 1.1 On 8<sup>th</sup> 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 31<sup>st</sup> March 2021 is c£3.4m rising to £4.8m to 31<sup>st</sup> 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

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