

# Forensic Review and Fact Finding – TDC Response to the Report

## Audit & Scrutiny Committee 30<sup>th</sup> September

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 Action Plan to address the outcomes at **Annex A**.

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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 reports identifies the financial implications of the c£920k gap in 2020/21 to 2022/23.

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### This report supports the Council's priority 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 address the recommendations in an Action Plan at **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 it was discussed at length at the Special Strategy & Resources Committee on 14<sup>th</sup> September.
- 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 Tandridge Finance Transformation Programme (TFT), refer **Annex A** - the Action Plan. Addressing these issues will ensure we have a tighter grip on our internal controls. The detailed activities, sequencing and timeline of the Programme is currently being determined and an update will be provided to the next A&S Committee in November.

### **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 outcome of the Grant Thornton Review. Although the outturn has been largely completed, it has indicated a substantial surplus for the Council, whilst also taking into account the c£920k gap. Whilst it seems a positive outcome, this could underlie some further issues which need to be investigated. In order to ensure complete confidence in the numbers, it is prudent to commission a root and branch review of finances. This review will be coupled with a line-by-line review of every 2021/22 budget line and this will delay the publication of the outturn until later in the year. The extent of the delay will be determined once the Finance Review is

scoped. At this point we will have greater certainty over the outturn and hence future years.

- The implications of this delay will also impact the 2020/21 Annual Accounts as part of the value for money conclusion. Our external auditors have been informed and their update is on the same agenda.

## 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 potential significant underspend/surplus in 2020/21, it is proposed to undertake a line-by-line review of all budget lines 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 budget line-by-line and root and branch Finance review has been undertaken and any surplus budgets established, the balance will then have to come from General Fund reserves. If the entire gap was required to be taken by General Fund reserves, they would be sufficient.
- 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.

## 2.3 2022/23 Budget Gap

- 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**. However, this gap may change given the outcomes of the reviews, however it is prudent to use this as a basis for closing the gap in 2022/23.

## **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 more precise timing of the implementation of the recommendations is currently being scoped and an update will be provided at the next A&S Committee in November

## **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

## **Appendices**

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

**Background papers**

None

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