

Report to Anna D'Alessandro, Chief Finance Officer and Section 151 Officer,
Tandridge District Council

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An independent Review of Tandridge District Council's Financial Management and Reporting Arrangements

Interim Report, 18 November 2021

Executive Summary

Tandridge District Council is aware that it faces a challenging financial situation and needs to improve its financial management across the Council. This situation, coupled with reduced capacity and capability in the finance team, led Tandridge District Council to approach Surrey County Council for assistance. Subsequently, under the leadership of Chief Finance Officer and Section 151 Officer Anna D'Alessandro, seconded from Surrey, significant work has begun on improving financial management and governance in the short term and transforming the finance function in the medium term.

In the short term the Chief Finance Officer has set the following clear objectives:

1. To re-build confidence in the financial data and information used in the production of the 2020/21 Revenue Outturn Report and Statement of Accounts through careful analysis and review.

This will enable:

- The Chief Finance Officer to recommend that Members approve the Revenue Outturn Report for 2020/21.
- The Statement of Accounts for 2020/21 to be submitted to Deloitte for the external audit to be finalised as it pertains to the value for money conclusion and their Annual Report.
- The Chief Finance Officer to use the 2020/21 Revenue Outturn Report to inform the development of the 2022/23 Budget and provide confidence to Members that the Draft Budget Report can be supported as any underlying financial issues are not material/have been or will be addressed through transformation work.

2. During the course of the review, to identify service pressures and saving opportunities that affect the development of the 2022/23 Budget.

As an experienced Director of Resources, with expertise in intervention work on behalf of MHCLG, I was asked to contribute to the careful analysis and review of financial management and reporting arrangements at Tandridge District Council. This interim report summarises my findings to date insofar as they are relevant to the delivery of the objectives set out above:

1. Audit and Scrutiny has improved substantially over the last year.
2. Swift steps have been taken by the Chief Finance Officer to seek independent reviews of weaknesses in financial management and to act upon their recommendations.
3. The base budget for the old year, 2021/22, is being reviewed systematically with care and due diligence by the finance team.
4. The finance team has been restructured and strengthened with colleagues from Surrey County Council providing oversight, direction and support.
5. The Tandridge Finance Transformation (TFT) Programme is underway and is already bringing about change and improvement.
6. The Revenue Outturn Report for 2020/21 has been prepared and is ready for the Chief Finance Officer to recommend to Members.
7. The Cash Book and Reconciliation process is labour intensive, extremely slow and is not integrated with key financial systems. This will be addressed through the Tandridge Finance Transformation Programme.
8. Suspense Accounts as they relate to expenditure were cleared in a timely manner for 2020/21.
9. The exceptionally high level of volatility in the Revenue Budget variances between 2020/21 and 2021/22 can be explained satisfactorily.
10. General Fund Capital Receipts could be used to offset the £920,000 pension budget shortfall in 2021/22 and/or be used to fund transformation.
11. Debtors as at 01 April 2021 are extraordinarily high as a proportion of the Council's Revenue Budget. This is now being actively managed and is being tackled as part of the Tandridge Finance Transformation Programme.

12. Work is continuing on the Balance Sheet review hence all work on Reserves and Provisions has not yet been completed. This work is likely to be completed around 15th December 2021.

Conclusion

In my view, based on the work undertaken in recent weeks, I have found sufficient evidence of careful review and analysis of the data and information used in the production of the 2020/21 Outturn Report to conclude that the Chief Finance Officer can proceed with a reasonable degree of confidence. The 2020/21 Outturn Report is ready for the Chief Finance Officer to recommend it to Members and submit it for external audit.

There is still much to do to ensure that financial management and accountability across the Council is improved, embedded and becomes part of the Council's business as usual and that it is being addressed through the TFT, with Members updated through the Member Reference Group.

Background

Tandridge District Council is aware that it faces a challenging financial situation and needs to improve its financial management across the Council. Tandridge has had a number of Section 151 Officers in the last five years. This constant change in the leadership of the Tandridge finance function has been unsettling for staff in the finance team. Moreover, the team has shrunk from 10 full time equivalent posts to 4 ½ full time equivalent posts over broadly the same five-year period, placing the staff under pressure at a time when internal audit, external reviews and scrutiny have added to their workload.

The difficult financial position for the Council as a whole, coupled with a weakened finance team, led Tandridge District Council to approach Surrey County Council for assistance, hence the appointment of Anna D'Alessandro as Section 151 Officer in 2020. Significant work has begun under her professional leadership and with the wholehearted support of the political leadership, on improving financial management and governance in the short term and transforming the finance function in the medium term. This transformation programme is designed to bring about steady, sustained improvement in financial control and financial management. To begin with, emphasis was placed on getting back to basics and ensuring that financial data are reliable and accurate, and that fundamental financial processes such as Accounts Payable and Accounts Receivable are reviewed and improved.

I set out below my comments and observations about financial management practices at Tandridge District Council based upon work carried out in recent weeks.

Comment 1. Audit and Scrutiny has improved substantially over the last year.

To familiarise myself with Tandridge I turned first to the Council's website, in particular the records of the meetings of the Audit and Scrutiny Committee. I noticed a marked improvement in the regularity of meetings, the quality of reports and the breadth of issues covered from mid-2020 onwards compared with the previous two years.

I was later to learn that Tandridge District Council with advice from senior officers has implemented a new audit and scrutiny function which is evolving and establishing its role. I have seen some evidence of active engagement from Members asking appropriate relevant and probing questions. Whilst there is work to be done to sustain and further develop audit and scrutiny, this takes nothing away from the step change in the Council's governance arrangements that a strengthened audit and scrutiny function represents. The Centre for Public Scrutiny is a good source of advice and best practice in this area.

Comment 2. Swift steps have been taken by the Chief Finance Officer to seek independent reviews of weaknesses in financial management and to act upon their recommendations.

The section 151 officer is taking reasonable and prompt action to be able to recommend the 2022/23 budget to Members with a reasonable degree of confidence and with managed risk. Independent reports on key areas of financial risk have been commissioned from:

- The Local Government Association,
- Internal Audit, and
- Grant Thornton.

The findings have been reported to Audit Committee, action has been taken by the Section 151 Officer and progress has been reported back to the Audit Committee.

Both Members and the Section 151 Officers have responsibilities under the law for budget setting and these are set out below.

The calculations to be made by Council when setting a balanced budget

The setting of the budget is a function reserved to Full Council.

The Council is required to set a balanced budget.

In each financial year the Council must make its budget calculation in accordance with Sections 42A and 42B of the Local Government Finance Act 1992. In particular the Council must calculate the following:

- The expenditure the authority estimates it will incur in the coming year in performing its functions and will charge to the revenue account for the coming year.

- An allowance for contingencies that the authority considers appropriate in relation to expenditure to be charged to the revenue account in the coming year.
- The financial reserves that the authority estimates it will be appropriate to raise in the coming year to meet its estimated future expenditure.
- The financial reserves sufficient to meet a revenue account deficit for any earlier financial year that has not already been provided for.

These calculations determine the Council Tax requirement for the year.

Once the budget is agreed by Full Council, Members cannot make any decisions which conflict with that budget, although variations and in-year changes may be made in accordance with the Financial Regulations which have been adopted by the Council.

The Council must then issue its precept before 01 March in the financial year preceding that for which it is issued.

When meeting these statutory obligations, the Council must have regard to the advice of its Chief Finance Officer appointed under Section 151 of the Local Government Act 1972.

Furthermore, under Section 25 of the Local Government Act 2003 the Chief Financial Officer has a duty to report to the authority on the robustness of the estimates that underpin the calculations required of the Council.

The approach taken by many local authorities to building the base budget for the new year is set out below. A comment is then made about Tandridge's preparation for the 2022/23 Revenue Budget.

Firstly, the base budget for the old year is reviewed and adjustments are made for structural deficits in the base budget. These may arise from higher than expected growth in demand resulting in overspends in the previous financial year that continue into the new financial year. Similarly, mitigating savings identified in the old year may also continue into the new year.

Secondly, adjustments are made for pay and price inflation.

Thirdly, adjustments are made for demographic changes which could result in growth in demand-led services.

Finally, assessments are made of the level of income that will be available from different sources to meet the cost of service delivery.

The estimated expenditure and income are then compared and this typically results in the identification of savings targets required to close the gap between expenditure and income.

Each of these points is addressed below.

Comment 3. The review of the base budget for the current year (2021/22) is being completed with care and due diligence by the finance team.

The Tandridge finance team is reviewing the 2021/22 budget with due diligence, not least because of the pressing need to balance the budget during the year and deal with the consequences of the c£920,000 unplanned budget gap. As an example of the work that is being undertaken, finance business partners have worked with service managers to review and verify the salaries budget which represents about three quarters of the total budget for the year. Once this line-by-line review of the 2021/22 budget is completed the outcome will be provided to Members.

Expenditure and income have been under close scrutiny since the appointment of the new Chief Executive and the Section 151 Officer. Since the joint working with Surrey County Council on the Transformation Programme began, this scrutiny has intensified.

Comment 4. The finance team has been restructured and strengthened with colleagues from Surrey County Council providing direction and oversight

Working together and effectively, in a short period of time the Finance Team has been restructured and strengthened with additional, experienced colleagues from the County Council supporting the Finance team. The combined team is already laying the foundations for the change in culture required to embed tighter financial control and deliver services more efficiently. 'Silo' working has reduced and there is a greater level of engagement and accountability across all levels of staff.

The intense scrutiny of the 2021/22 Revenue Budget and the marked improvement in the leadership, management and governance of the authority have led to more openness and transparency. As a result, in my view, Councillors can be more confident that the base budget for 2021/22 has been carefully reviewed within the time and resources available, weaknesses are being identified and addressed and it provides a reasonable basis for planning 2022/23.

Despite all the work done to date, there is still much to be done to develop and embed routine financial processes, effective financial management and reporting and efficient accounting and year end processes at Tandridge District Council. The TFT provides the means to prioritise, plan, deliver and monitor the improvements that are necessary. There will continue to be variances, it is likely that they will be less significant and identified sooner. For an example of the extensive scope and scale of work that is required to bring the Council's processes closer to good practice standards, please see Comment 11.

Comment 5. The Finance Transformation Programme (TFT) is underway and is already bringing about change and improvement.

- An effective Programme Management function is in place.
- The Tandridge Finance Team has been restructured, interviews have been held and roles filled successfully and recruitment to vacancies is currently in train.
- Surrey County Council has provided support through a small number of highly-skilled and experienced staff to strengthen the Tandridge Finance Team.
- The Exchequer function is a particular area of focus in phase 1 of the programme and is making headway.

All the finance staff are working purposefully and professionally together in my view, especially given the difficult circumstances. I wish to make it clear that former Section 151 Officers are personally accountable for the weaknesses identified in this report (as prescribed in the legislation) and not the Finance Team as a whole.

Comment 6. The Revenue Outturn Report for 2020/21 has been prepared and is ready for the Chief Finance Officer to recommend to Members.

The 2019/20 Accounts have been submitted to external audit. It is not yet clear why the audit has not been completed however that is being addressed by the Chair of the Audit & Scrutiny Committee. External auditors in general are lacking the resources that they need, especially given the very tight budgets allocated by the PSAA; this is likely to be a factor in the delay.

The 2020/21 Outturn Report and Accounts have been prepared ready for approval and audit. In addition, a clear and comprehensive covering report and detailed slide presentation. The work that has been done by some team members in preparing the 2020/21 Outturn Report and the associated working papers and slides has been meticulous. Much credit is due to the Finance Team including some colleagues seconded and providing support from Surrey County Council whose patience and persistence has contributed to a better set of External Accounts for 2020/21 and working papers than Tandridge District Council achieved on its own in recent years.

Please note that significant contributions have been made to Reserves at the end of 2020/21 (as set out in the Outturn Report) and this strengthens the Council's financial position.

Nonetheless, there are some issues within those Accounts that need further attention.

Comment 7. The Cash Book and Bank Reconciliation process is labour intensive, extremely slow and is not integrated with key financial systems. This will be addressed through the Tandridge Finance Transformation Programme.

The Cash Book and Bank Reconciliation at 31 March 2021 was out of balance, on the face of it, by around £30,000. The Cash Book and Bank Reconciliation process is labour intensive, extremely slow and dependent upon a number of spreadsheets that are used to work around the lack of integration between key financial systems, not least Agresso (the General Ledger) and Adelante (the Income System). This is not satisfactory but additional work was undertaken by the team in order to identify the reasons for the imbalance and provide working papers and explanatory notes for consideration by external audit. Further work will be completed as part of the transformation programme to find a more permanent solution.

Comment 8. Suspense Accounts were cleared in a timely manner.

Suspense Accounts were cleared, and transactions allocated in time for inclusion in the 2020/21 Accounts. The uncleared suspense at 31 March 2021 was less than £1,000 in total. This is good practice.

Comment 9. The exceptionally high level of volatility in the budget variances between 2020/21 and 2021/22 can be explained satisfactorily.

The level of volatility in the budget variances between financial years 2020/21 and 2021/22 is extraordinary, caused predominantly by Covid-19 related conditions in 2020/21.

There follows a table that highlights the main reasons for the extraordinarily high variance that gave rise to a surplus (before adjustment for the error in the reallocation of the pension budget of c£920,000) of £1,778,000:

Surplus as at 31.3.21 before adjustment for pensions error:	£1,778,000
Offset by pensions error:	(£920,000)
BAU surplus as at 31.3.21	£858,000

Source of surplus of £1,778,000:

Additional Income: New Homes Bonus	£252,000
Homes England Funding	£130,000
Local Plan underspend	£552,000
Salary underspends	£589,000
Flexible use of capital receipts	£140,000
Higher budget than required for secondary pensions	£362,000

Stationery and printing	£56,000
Offset by interest receivable overspend	(£174,000)
MRP overspend	(£152,000)
Other	(£23,000)
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Surplus before adjustment for pensions error	£1,778,000
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The Council received £1,665,000 from Government for General Emergency / General Covid-19 grants and Income Compensation Scheme. The Council applied costs and lost of income in line with the conditions of the grants.

Having reflected on the 2020/21 Revenue Outturn Report, the main reason for the volatility is that 2020/21 was characterised by an exceptional number of grant payments from the Government that were for one year only. These one-off grant payments, where they were underspent, were transferred to reserves at the end of 2020/21 and will not recur in 2021/22. In addition, there were a number of substantial one-off savings, in particular an underspend on the Local Plan and salaries.

Comment 10. General Fund Capital Receipts could be used to offset the c£920,000 pension budget shortfall in 2021/22 and/or be used to fund transformation.

There are ways in which Capital Receipts can be applied legitimately to support the Council's Revenue Budget. General Fund Capital Receipts provide an opportunity to fund service transformation. In addition, the Council could, if it chooses to, apply to the Secretary of State for a Capital Dispensation that could, if approved, cover the shortfall of c£920,000 in the 2021/22 Budget arising from the error made in the Pensions Budget.

Opening Balance, General Fund Capital Receipts 01.04.2021	£1,337,184
Add: In-year Capital Receipts from loans	£318,000
Position at 16 November 2021 (assuming Capital Receipts are not used to fund the Capital Programme)	Total £1,655,184

Please note, there is potential for a further Capital Receipt arising from the sale of a surplus property during the remainder of the current financial year/early next year.

Comment 11. Debtors as at 01 April 2021 are extraordinarily high as a proportion of the Council's revenue budget. This is now being actively managed and is being tackled as part of the Tandridge Finance Transformation Programme.

Debtors as at 01 April 2021 are extraordinarily high as a proportion of the Council's revenue budget.

Tandridge District Council outstanding debt – General Fund directly responsible

Debt:	Council fund	Outstanding as at 31/01/2021	Outstanding as at 31/10/2021
Housing Benefit Overpayments	Housing General Fund	1,447,215.10	1,469,692.33
Sundry Debts	General Fund - corporate items	2,038,887.18	2,486,348.72
General Fund		3,486,102.28	3,956,041.05

Note:

Debt	Annual collection	Relevant notes
Housing Benefit Overpayments	£18m	Debts dated up to 31/08/2021 in Capita, debts from 01/09/2021 in NEC (Northgate)
Sundry Debts		Includes commercial rents, former Council tenant debt, leaseholder expenses debt and repairs recharges. Of the £1.1m of collectable debt as at 31/10/2021, 54% is over 6-months old.

Tandridge District Council outstanding debt – HRA directly responsible

Debt:	Council fund	Outstanding as at 31/01/2021	Outstanding as at 31/10/2021
Current tenant rent arrears (HRA)	Housing Revenue Account	438,721.32	372,258.86

Note:

Debt:	Annual collection	Relevant notes
Current tenant rent arrears (HRA)	£15m	Approximately 72% of rent accounts owe in excess of £1,000.00

Tandridge District Council outstanding debt – Shared responsibility with SCC, SPCC and / or central government

Debt:	Council fund	Outstanding as at 31/03/2021	Predicted Outstanding as at 31/03/2022
Council Tax arrears	Collection funds	2,202,143.20	4,300,530.10
National Non-Domestic Rates	Collection funds	378,403.99	832,606.21

Note:

Debt:	Annual collection	Relevant notes
Council Tax arrears	£79m	Please note this figure is the accumulated arrears as at 31st March each year. Our collection rate currently 97%.
National Non-Domestic Rates	£30m	Please note this is the accumulated arrears as at 31st March each year. Our collection rate was 95% last however the last 5 years have averaged above 97%.

Steps are being taken to: improve debt management collection rates; revise processes for the review and write-off of old debt; and prioritise the collection of debt that is less than a year old.

To begin with, the Exchequer Services transformation activity is focussed on the management of sundry debt. The following work is underway:

- An assessment of the current state of Exchequer Services. Collaborative work has started with key stakeholders to identify priority issues, review existing documentation, assess key reports (such as LGA, audit) and analyse the 'as is' position to capture all of the improvements required.
- An Agresso Health Check was undertaken during August and September to enable more efficient use of available functionality within existing systems, Agresso (Finance) and Adelante (Income) to streamline and automate. Improvements were identified to income allocation, plus improvements required to reminders and aged debt monitoring and reporting. Work is currently underway to agree the specification of work with the immediate focus on improving debt management and collection. There has been improved partnership working across Tandridge, for example
 - Engaging with the Central Debt Unit) to:
 - establish regular monthly meetings between Exchequer and Income and Business to help with communications
 - better understand each other's teams, systems and processes
 - improve hand-overs and information sharing
 - share improvement activity
 - review specific debt cases to agree next steps and to ensure that lessons learnt are built into the new systems and processes as part of this transformation activity
- Interim improvements have been introduced to the aged debt monitoring reports. This is a work in progress. The intention is to establish monthly Exchequer reporting to senior key stakeholders across Tandridge to ensure that there is clarity regarding sundry debt outstanding debt position, and to highlight areas of priority focus.

As part of the programme governance, an Exchequer working group is to be established which will have nominations from across the councils. This group will be used to communicate to the wider organisations on proposed changes, help improve the awareness of importance of key exchequer outputs such as prompt payment and debt recovery as well as provide services with the opportunity to influence the design of the future best practice approach to exchequer services.

Comment 12. Work is continuing on the Balance Sheet review hence all work on Reserves and Provisions has not yet been completed.

Work is continuing on the Balance Sheet review. There are a large number of smaller balances that sit on the Balance Sheet and they need to be reviewed one by one. In so doing, some of the old balances can be written back into the Revenue Account and in some cases, like the European Union Brexit Reserve of £52,000 and the Taxi Voucher Scheme Reserve of £96,000, the authority would be able to take advantage of one-off savings. It would be prudent to have completed all of the work on the Reserves so as to take view in the round of the net balance arising, before writing anything back into the Revenue Account.

Conclusion

In my view, based on the work undertaken in recent weeks, I have found sufficient evidence of careful review and analysis of the data and information used in the production of the 2020/21 Outturn Report to conclude that the Chief Finance Officer can proceed with a reasonable degree of confidence. The 2020/21 Outturn Report is ready for the Chief Finance Officer to recommend it to Members and submit it for external audit and underlying data used to support the production of the 2022/23 Draft Budget Report.