

Independent Financial Review

Finance and Administration Committee agenda item 6

Committee: Finance and Administration Committee
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Title: Independent Financial Review
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Agenda Item

6

Summary

1. Attached at Appendix One is the report of Mr Roots who undertook an independent review of the council's financial position. Mr Roots is a former Chief Executive of Westminster City Council, and he has also been a Director of Finance and was recommended to the Council by the Audit Commission. His fee is being paid for by the Building Capacity East programme.

Recommendations

2. That Members note the report and agree to discuss the recommendations and guidance contained within at the next meeting of this committee when Mr Roots will be in attendance.

Background Papers

All recent financial reports, the Medium Term Financial Strategy (MTFS) and council 2007/08 budget papers

Impact

Communication/Consultation	The report has been circulated to all staff
Community Safety	None.
Equalities	None.
Finance	This report concerns the Council's overall Financial position.
Human Rights	None.
Legal implications	Possibility of a S114 Notice
Ward-specific impacts	None.
Workforce/Workplace	Part of the on-going savings exercise

Appendix One

Uttlesford District Council **Financial diagnostic report by W Roots** **February 2008**

A. Introduction

1. I was initially approached by Ian Davidson of the Audit Commission to meet the Council's Chief Executive with a view to undertaking a "Financial Diagnostic" of the Council financial position.
2. I met the Chief Executive on the 16th January and agreed to undertake an analysis and review of the Council's anticipated budget gap for 2008/09; the measures identified to bridge the gap and the budgeting and monitoring processes adopted within the Council.
3. Given that the Council needs to determine its budget and the Council Tax level for 2008/09 by mid February; time is short and for this reason I have deliberately limited my analysis and questioning to the aspects set out in paragraph 2 above. Thus the content of this report is less than it would be were I to undertake a full diagnostic of the Council's financial position, processes and practices.
4. Also for this reason and since the Council is effectively paying for my advice, experience and judgement I have adopted a style of reporting based upon simply setting out my proposals/recommendations rather than elaborating on the pros and cons of each issue addressed. I am of course more than willing to explain my thinking and the rationale behind my views, if so required.

B. Content

5. I have categorised the issues involved as follows:
 - a. An assessment of why the Council is in the parlous position that it is.
 - b. Whether the budget gap identified for 2008/09 is realistic.
 - c. My comments on the budget options being put to members to bridge the 2008/09 budget deficit
 - d. Other issues which I consider to be important if the Council is to restore financial stability and strength to the District Council
6. The following paragraphs set out my comments on the key aspects but I stress that the actions the Council needs to take to remedy the current position should not be underestimated. The Council is in a precarious financial position. As I state below setting the 2008/09 budget is the most pressing issue but further firm action will be needed in the coming year to restore the Council's financial strength.

C. Why is the Council in this position?

7. I have no wish to be drawn into political confrontation and my analysis below is dispassionately based on what has clearly transpired from analysing the Council's reports and published documents.
8. The reasons that the Council finds itself in such a weak position financially is very clear to me, namely
 - a. Council reserves, both capital and revenue, have been spent at an unsustainable rate. While they were relatively high some years ago (e.g. capital receipts of some £10m in 2002/3 and general revenue reserves of £3.2m as at 31 March 2006) they have been utilised at a rate that could only apply for a couple of years unless other changes were made to the Council's base budget spending, particularly in so far as revenue expenditure is concerned
 - b. There has been a complete absence of financial control by both Council Members and Council Officers both in terms of budget setting and then subsequent monitoring.
 - c. An effective process to prepare the Council's Budget and then monitor performance has not existed for some years based on the evidence that I have looked at.
 - d. The apparent promotion of Council financial officers beyond their level of experience, knowledge and ability to operate at the most senior levels in local government
 - e. What appears to be a diminution of the importance of the finance function
 - f. Inappropriately optimistic budget assumptions.
 - g. Mistakes in budget preparation which should not have occurred
9. I have set these points out since I believe it important that the Council is mindful of them as it goes forward.

D. Is the Budget gap identified for 2008/09 realistic?

10. Unfortunately, I can not give a categorical testament that all the "skeletons" that have been emerging in respect of the Council's finances over the last nine months are now known. This would require a detailed assessment of every Balance Sheet item; all revenue accounts and then all contracts entered into properly or otherwise (I am not suggesting that any were) to be assessed. The assurance that I can give is that Adrian Webb; David Bradley and their staff have examined in a thorough way all the issues that I would expect; thus further unpleasant surprises are unlikely.

3. The budget gap identified stands at some £1.8m but allowing for the fact that the vacancy target saving in the draft 2008/09 budget remains at 5% (worth £0.5m) then the true gap could be closer to £2.3m and there remains the contingent risk of Stansted (Phase G1) compensation for which no budgetary provision is being made.
4. I comment on the options being proposed and action needed below in paragraphs 15 to 17 below.

E Budget Options

5. The options to meet a potential £2.3m that I have seen can be summarised as follows:

	Amount Estimated £	Amount Confirmed £
Area- a.£0.8m general		
Changes in recycling	100,000	Expect 100,000
HPDG	100,000	Omitted for now nil
Reduction in Stansted G2	250,000	250,000
October redundancies	200,000	220,000
Bulky items charge	150,000	90,000
Council Tax	20,000	20,000
Car Parking	Nil	31,500
Total	820,000	711500
b. Vacancy factor	500,000	Budget cash limit 500,000
c. Staff reductions	1,000,000	1,108,700
TOTAL	2,300,000	2,320,200

6. As at the date of writing this report the £100,000 for recycling savings has yet to be agreed by members and HPDG remains uncertain and if received will be used to replenish balances.
7. The £500,000 put in as a vacancy factor is recognised as being unlikely to be achieved given the vacant posts deleted under the staffing reductions line and as such represents a general cash reduction for service heads to find. In reality some vacancies will occur but the rest of this saving will need to be found by close budget management. This will fall in unplanned areas and could impact on service levels in an unpredictable manner. It is not the way in which budget reductions should be

made but given the timescale left to balance the 2008/09 budget such a crude measure is unavoidable. However rigorous monitoring will be needed to ensure that the saving is made and that service impacts are minimised where possible.

8. I have now seen a copy of a report dated the 31st January to the Council's Finance and Administration Committee which sets out an analysis of the service impact that will occur both in terms of the public and also performance indicators from the savings being made in staffing. Before the Council as a whole sign off such savings it is important the service impact is spelt out so as to obviate any pressure to avoid or reinstate such savings during the year.
9. Other budget options. I have discussed with Council officers the potential to find alternative savings –some will inevitably have to await attention in later years. Those that I have raised are
 - a. Capitalisation—Are there revenue financed costs that can be capitalised?
 - b. Pension deficit contributions--- Currently these are financed over 5 years other local authorities adopt a longer timescale and the options possible need to be formally raised with Essex County Council
 - c. Seeking the maximum contribution to meet recovery costs from the Capacity Building Fund under the control of the Government Office. This applies in particular to implementing effective Business Planning and Performance Management and to strengthening the Finance function (see paragraph 19 and 23 below).
 - d. Curtailing the size of the capital programme to ensure that only high priority schemes proceed thus creating the resource to meet the costs of capitalisation (see a above) and to maximise possible revenue interest earnings on balances.
 - e. Maximising fees and charges--- The current Medium Term Plan is inaccurate as it assumes that all fees and charges can increase by 2.5% whereas some are outside the Council's control and in any event the Council has failed to increase those where it has the ability to do so in recent years. Given the Council's budget position and that the election is not until 2011 then the opportunity exists to increase fees and charges based upon what the market can stand. This opportunity should be taken as part of the budget process or early in the new financial year. However no credit should appear in the budget until firm decisions are actually taken.
 - f. Advertising and sponsorship—Can the Council do more to generate income this way?
 - g. Alternative means of service provision –Is the Council doing enough to reduce costs by engaging in shared service provision and market testing?

- h. Capital receipts—There is an absence of a capital asset register and questions arise about the prioritisation of capital schemes. Is the Council doing all that it can to generate capital receipts?
- i. Housing Stock transfer—This will be an important future consideration which should give the council the scope to generate a significant capital receipt. Such a project will likely need specialist resources.
- j. Level of Council Tax—Whereas the MTFS assumed a Council Tax of 3.5% (but actually allowed for 4.5%) a higher level increase is called for. The Council has the lowest level of Council Tax in the County and the opportunity does exist to go for an increase even in excess of the anticipated government capping level. It is questionable as to whether the Council would be capped given its relative Tax position and its poor financial position. While I fully understand the likely unpopularity of such a proposal urgent discussions with Central Government are needed since this does give the Council the opportunity to explain its position and to improve its revenue base. I realise that a 1% increase only raises £40,000 but the benefit is felt in the base income for all future years.

F. Other issues requiring attention

- 10. In some ways elements of this section of my report could be considered as going beyond my original remit. However I believe it important to raise these points as a contribution to the wider action needed if the Council is to restore its financial base.
- 11. **Business Planning and Performance Management**—It is vital that the Council adopt an effective process for Business Planning and Performance Management. My experience in visiting under performing local authorities throughout the country is that almost inevitably that such a system is lacking or non existent. In the Council's case I can find no evidence of a reliable system in recent years. I attach at Appendix A an outline of the process that I would expect to see coupled with a diagrammatic presentation and an outline annual timetable. The proposals are based upon best practice but the Council will need to adapt such a system to suit its own management and member structure. It is noticeable that at present that the Council does not appear to have one committee that take an overview of the needs and performance of the Council as a Policy and Resources Committee or Cabinet would in other local authorities. Uttlesford does as a minimum need to have a forum where periodic reports (preferably quarterly) covering performance on finance (capital and revenue); service delivery and key actions for the Council as a whole are reported on an exception basis. It will likely need to be the Finance and Administration Committee given the current structure but members may want to look at roles and responsibilities in any event. Monitoring must be on the basis of projected outturn for the year and not performance and expenditure to date within the year. It is worth remembering that it is not service spending that has led to the current financial position of the Council but corporate items that no member or committee seemed to have a responsibility for. In implementing such a system training for both members and officers will be needed to ensure that roles and responsibilities are clearly understood.

12. **A New Chief Executive**—The senior management structure at the top of the organisation will be very thin with the departure of the Chief Executive and this is compounded in so far as the finance function is concerned (see paragraph 21 below). An immediate start is needed now to appoint a successor. While this is underway strong leadership is needed if the Council is to tackle the key issues it faces over the coming months. I have no doubt that the right solution is for the Council to appoint a former capable and experienced Chief Executive on an interim basis while the formal recruitment of a new Chief Executive occurs. The individual selected will need to have particular experience of effective budget setting processes and performance management. I emphasise that the challenges that this authority faces over the next six months are significant with the balancing of the 2008/09 budget being only the starting point.
13. **The financial officer structure**—The Director of Central Services position is frozen at present primarily so as to not fetter the management structure which the new Chief Executive may prefer. While this is understandable the absence of leadership at this level for in all probability a minimum of another year (allowing 6 months for both the Chief Executive and the new Director to be appointed) is untenable. This when coupled with the facts that:
- k. The Chief Finance Officer post is not filled
 - l. The senior finance role is being undertaken at present by the Head of ICT and OR and he and a part time consultant are the only qualified accountants in the Council – The Head of Finance post has been deleted
 - m. The finance staff some of whom are new and relatively inexperienced need leadership and direction and operate a very flat structure effectively all reporting to the Chief Finance Officer (when appointed).
14. The appointment of a new Director of Corporate Services needs to proceed and this should be a “given” in terms of the management structure for the new Chief Executive. It would be amazing if the new senior management structure did not include such a position given the Council’s recent history. Initially the post should be responsible for ICT; HR; Finance (including Internal Audit) and OR, {plus the existing other Heads of Service functions that reported to the previous Director of Resources (i.e. Partnerships and Performance and Community Engagement)}. Other responsibilities can be added at a later stage depending upon the intentions of the new Chief Executive and the ability and experience of the person appointed as the new Director of Corporate Services.
15. Equally recruitment to the post of Chief Finance Officer needs to be in train. It is for the Council to decide where the S151 responsibility lies (i.e. here or with the Director of Corporate Services) but if this responsibility lies with the CFO then the post holder needs to be a member of SMT. Further until this appointment is made and the post-holder has arrived the Council needs to continue with the interim consultant and a further bid to the Government Capacity Fund to provide for this is needed. The Council needs the experience and financial knowledge possessed by this person as it does not otherwise exist within the Council especially in terms of accounts closure and effective budgetary management. The other financial staff are on a flat structure

and report to the CFO post and it would be beneficial if two of these staff could be made more senior than the others so as to improve managerial reporting and control. In determining the detailed arrangements the Council should seek to end up with at least three qualified accountants in its employment. I am aware that some aid is likely to be given by Essex County Council in terms of staff time which while very welcome in the short term would not be a permanent solution.

16. **Stansted**—The Council, has recently reached an agreement with its local authority partners that they will meet a larger share of G2 costs. Whilst this is very positive news no provision has been made for possible compensation for G1 should it arise. This could have a dramatic impact on the Council's financial position and urgent discussions with local authority partners and central Government are needed on the financing options available.
17. **S114 Report**—The Acting S151 officer may find it necessary to issue a Section 114 report given the Council's position hopefully this can be avoided since it would not serve any real purpose. He will need to confirm that such a report is unnecessary having taken appropriate professional and legal advice.
18. **Risk**—The Council will need to exercise considered judgement in deciding what action is appropriate and quick fixes are not an option. Naturally immediate attention does turn on producing a balanced budget for 2008/09 but as stated above the need for the Council to amend its more fundamental practices is a challenge which will require significant attention over the next year. A firm plan to tackle the issues needing attention will need to be produced and endorsed and will likely attract attention from external sources as indicated in the next paragraph.
19. **External Audit**—I am aware that some members are seeking comments from the external auditor on the role that they have played in recent years. This apart, members will need to be aware that the decisions that the Council takes in respect of its current financial challenges will most likely have a direct influence on the future action of both the External Auditor and the Government Office.

G. Conclusion and overall recommendation

20. The Council faces a considerable challenge to restore its financial stability involving member and officer roles and responsibilities and core Council processes.
21. Action being taken is appropriate with the immediate focus being the setting of the 2008/09 budget however to be effective in the future the actions to follow once the budget is set should not be underestimated and are critical to the longer term avoidance of a repetition of the current position.
22. A formal plan to tackle the requisite issues is needed to ensure that action does follow in the agreed timescales and close monitoring of this plan by both members and officers is needed. The issues that I have commented upon above need to be built into this plan.

H Recommendation

23. That the Council consider the points that I have raised in the report and prepare a composite plan to action them having regard to the timescales available for the immediate actions needed to settle the 2008/09 budget.

Appendix A

Business Planning Summary

The Business Planning and Monitoring Process in a nut shell

Planning

1. The Council like all local authorities is required to produce numerous plans and is influenced by the plans of other organisations
2. The key plan of any Council is the Council Plan (or Corporate Plan). It is heavily influenced by the Community (Strategy) Plan, individual statutory Service Plans, and major specific project Plans. It sets out the Council's vision, values, key priorities, the resources available and the actions required and performance standards to be achieved.
3. The content can also be directly influenced by the content of the Council's Improvement Plan which is a separate detailed document highlighting key actions needed to improve performance and service delivery in poorly rated, in CPA terms, Councils. Such a plan may also exist where particular problems call for an Improvement Plan approach.
4. Underpinning the Council Plans are individual Service Business Plans which set out in more detail how the issues highlighted in both the Council Plan and the Improvement Plan are to be achieved and to what standard. In addition more detailed service specific information is set out to inform and guide management action on service issues which although operationally important are in themselves not identified as corporate priorities in the Council Plan or Recovery Plan.
5. While a detailed capital and revenue budget analysis exists, the summary service financial information shown in the Council Plan is the basis for corporate financial monitoring with more detailed monitoring being undertaken by Departmental Management Teams.
6. The Council Plan and the Improvement Plan are subject to formal approval by the Council. Service Committees (or the Cabinet in appropriate authorities) are responsible for approving the key Actions and Service Standards sections of individual Service Plans.
7. The plans also form the basis for the objectives set for Council officials against which they are appraised.
8. Annex 1 (overleaf) sets out in brief diagrammatic form the Council's Planning and Monitoring process
9. Annex 2 shows an alternative diagrammatic presentation

Monitoring

10. Departmental Management Teams are required to monitor their performance against the Council Plan, the Improvement Plan and their own Service Plan on a monthly basis. Some service issues which are sensitive or difficult to fully control are subject to more frequent monitoring. Progress is discussed monthly with the Committee chairman/ or appropriate Cabinet portfolio holder.
11. Performance against the Council Plan is reported to the Corporate Management Team on a monthly basis with a quarterly summary report going to the Council's Cabinet or an over arching committee. Reports cover resources (capital and revenue on a projected out turn basis), progress on key actions and service performance data.
12. Performance against Departmental Service plans is undertaken by Departmental Management Teams (with staff from central support functions e.g. finance being available at the meeting to give advice) and any significant service or additional

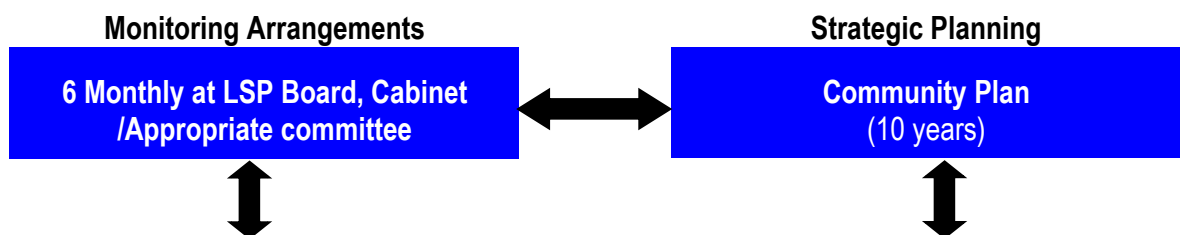
- financial performance issues are drawn to the attention of the Corporate Management Team for upward reporting if necessary.
13. Performance against the Improvement Plan where it exists is reported monthly to Corporate Management Team, the Cabinet/ appropriate committee, and the Government or if necessary a separate Monitoring Board.
 14. The monitoring of staff performance is achieved through the staff appraisal process which is annual with a half yearly review.

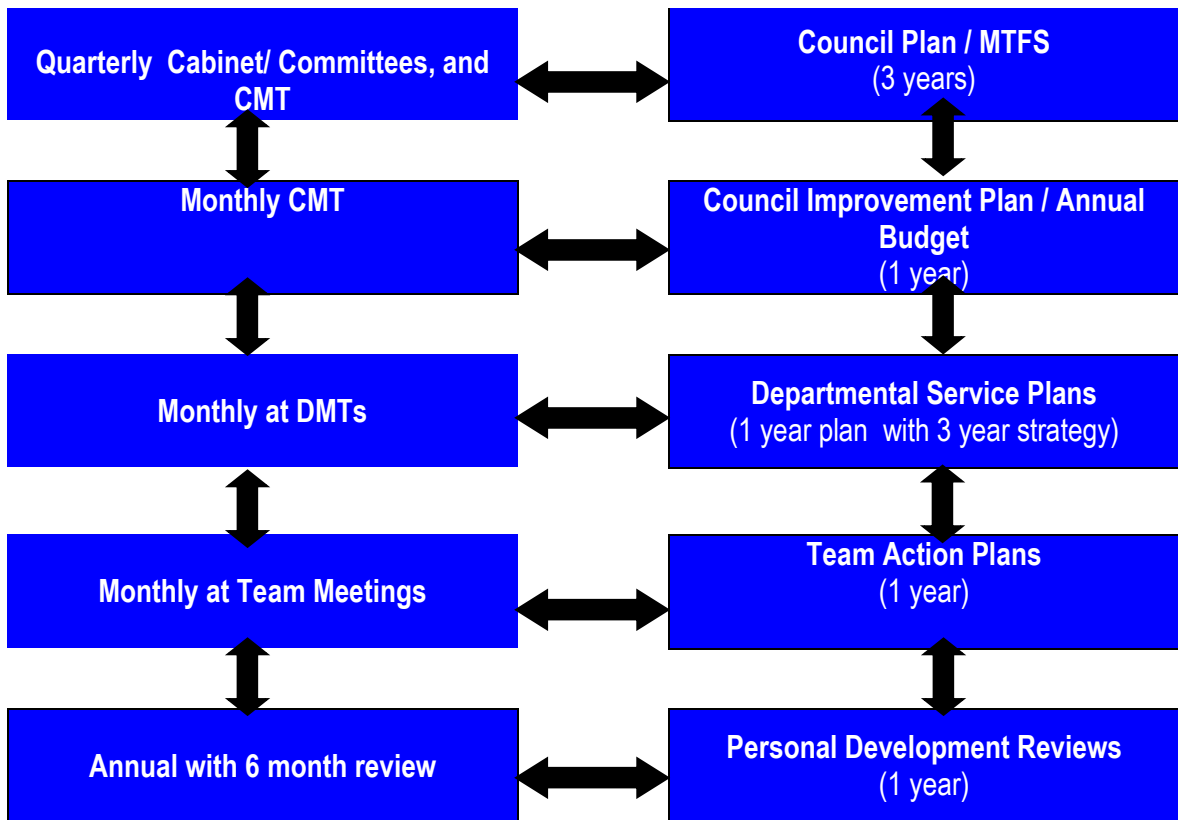
The annual timetable

15. A summary of the Annual Timetable is set out in Annex 3 using 2007/8 as the base year.

Annex 1

Diagrammatic Presentation of XYZ's Planning and Monitoring Process

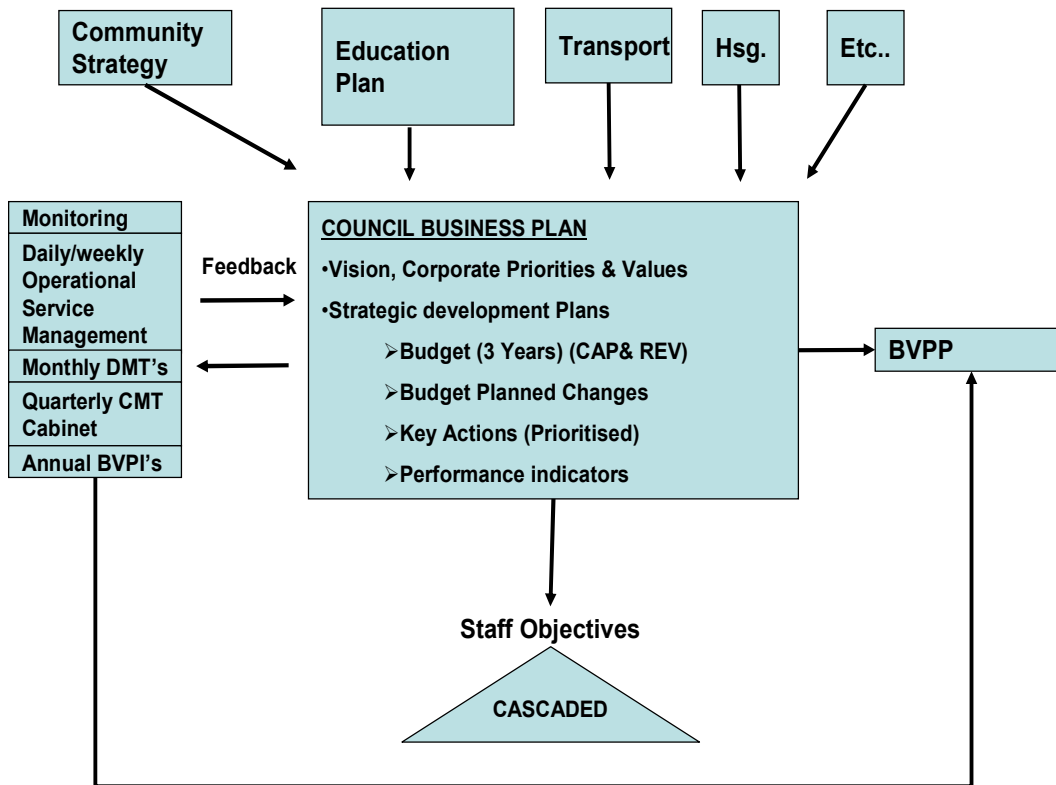




Annex 2

Business Planning and Performance Management

- So what does it look like?



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DATE	ACTION OR EVENT	PERIODS AFFECTED			
		2006/7	2007/8	2007/10	2008/11
March 07	-Set Council Tax (includes revenue and Capital budgets)		Y		
April 07	-Council Plan and Service Business plans published -Issue Council Imp Plan (If needed)		Y Y	Y	
June 07	-Financial Out turn 2006/7 revenue and capital reviewed and reported -KPI's Out turn reviewed and reported -BVPP and Council results reported -Month 1 monitoring report (finance; key actions and PI's to CMT ** -Month 1 Imp Plan monitoring report to CMT and Cabinet **	Y Y Y	Y Y		
Aug 07	-First quarterly monitoring report to Cabinet/committee (covering finance; key actions and PI's) -Detailed budget timetable issued (see separate document)		Y		Y
Sept 07	-Financial prospects reported and draft medium term Financial Plan updated -Budget Remit set			Y	Y Y
Oct 07	-Draft options for growth and savings considered by CMT having regard to Council and service priorities				Y

Nov 07	-Star chamber meetings with Majority group -Budget Options reported to the Council prior to public consultation -Preparation of draft Service Business Plans and Council Plan -Second quarterly monitoring report to CMT ,Cabinet /committee		Y		Y Y Y
Dec 07	-Public Consultation re 2008/09 budget -Scrutiny review of budget				2008/09 2008/09
Jan 08	- Finalise Council <ul style="list-style-type: none"> • Budget • Service Plans • Council Plan 				Y Y Y
Feb 08	- Third quarterly monitoring report to CMT, Cabinet and		Y		
March 08	-Set Council Tax -Distribute Council Plan and Service Plans -Finalise Staff Objectives and complete PDR's				2008/09 Y 2008/09
April 08	Process starts again as above				
May 08	-Fourth quarterly monitoring report to CMT, Cabinet and Council ** These reports are repeated monthly but not shown here to avoid cluttering this document		Y		