

**PERFORMANCE SELECT COMMITTEE held at COUNCIL OFFICES  
LONDON ROAD SAFFRON WALDEN at 7.30 pm on 27 SEPTEMBER  
2007**

Present:- Councillor H S Rolfe – Chairman.  
Councillors S Barker, M A Gayler, A J Ketteridge, T P Knight  
and P A Wilcock.

Also present:- Councillors R P Chambers, A Dean, E J Godwin,  
S Howell, J Hudson and R M Lemon.

Officers in attendance:- A Bovaird, M Brean, S Bronson, A Clarke,  
J Mitchell, P O'Dell, R Pridham, M T Purkiss and T Turner.

**PS24 PUBLIC QUESTION AND ANSWER SESSION**

The Chairman thanked members of the Council's staff who had attended the meeting and said that he would allow staff to speak when the item concerning financial management was debated.

Richard Snape then made the following statement:

"The current financial situation of the Council has worried and alarmed staff. It has become a distraction from concentrating on providing quality services to the public. With the management resolved to put the Council back on a firm financial footing changes in who staff report to would be a further distraction and create more disruption. Changes that already have been partly implemented need to be followed through. Consolidation, careful resource allocation and regular reviews would allow staff to concentrate on serving the public whilst seeking ways to innovate improving our services without compulsory redundancies".

**PS25 APOLOGIES FOR ABSENCE AND DECLARATIONS OF INTEREST**

Apologies for absence were received from Councillors M L Foley and J Salmon.

**PS26 MINUTES**

The Minutes of the meeting held on 2 August 2007 were approved as a correct record and signed by the Chairman.

**PS27 MATTERS ARISING/ACTION LIST**

The Committee received the list of committee actions.

**(a) PS80(c) – Review of PIs**

The Head of Partnerships and Performance reported that a review of local performance indicators had been initiated which would align these with corporate and divisional plans.

**(b) PS4 – U-Connect**

Councillor Knight complained that insufficient notice had been given for the Members' visit to U-Connect.

**(c) PS20 – Understanding of risk management monitored in appraisals**

The Acting Audit Manager said that the meeting with SMB had been postponed and she would report to a further meeting of the Board on risk management matters. Councillor Knight referred to the number of appraisals which had been completed this year and the Chief Executive said that progress was being made and a report would be submitted to the next meeting of this Committee.

PS28

**PRESENTATION ON RECYCLING STATISTICS**

The Head of Street Services submitted a detailed report setting out recycling performance for April 2007 through to July 2007. He explained that the new scheme had been rolled out across the District starting in the south in June 2006 and completing in the north in November 2006. Therefore, 2007/08 would be the first full year of the new scheme.

Members were generally pleased with the performance, but Councillor Knight stated that there had been an increase in fly tipping between Debden and Thaxted. The Head of Street Services said that he would investigate this matter and e-mail Members with the up to date statistics.

In answer to a question from Councillor Wilcock he explained that the increase in glass recycling was due mainly to greater awareness and participation in recycling.

In response to questions from the Chairman, the Head of Division stated that the waste strategy model set out that the cost for 2006/07 was £72 per household which included implementation costs, implementation of single status and harmonisation of pay and conditions across the workforce. He said that the target for 2007/08 was around £70 per household and the restated budget for the first six months of the year showed that it was running at approximately £66 per household and there was also a projected underspend on the budget.

The Director of Resources said that he would e-mail details of the current position to Members.

**PS29 INTERNAL AUDIT REPORT – SIX MONTH UPDATE**

The Acting Audit Manager submitted a report setting out details of the work undertaken and time spent on it to date in comparison to what was planned for the whole of 2007/08. Details of audits in progress and those not yet started were also submitted.

In response to questions from Cllr Knight, the Acting Audit Manager said that there had been staff shortages during the first three months of the year, but there was now a full complement of auditors and she hoped that they would be able to complete all audits on target.

**PS30 INTERNAL AUDIT – CREDITORS AND VAT**

Members considered details of the creditors and VAT internal audit report and management action plan. The report contained recommendations to improve control and manage risk and had been issued to relevant managers in accordance with the agreed protocol.

The Director of Resources updated the Committee on progress towards implementing the recommendations contained in the report.

The Director of Resources also mentioned that at the last meeting, Members had expressed some concern regarding the audit of insurance. He said that an interim Head of Finance was now in post and progress on the recommendations would be accelerated.

RESOLVED that the Creditors and VAT Internal Audit Report and Management Action Plan be noted.

**PS31 AUDIT PLAN PROGRESS REPORT**

Paul King from the Audit Commission informed the Committee of progress against the 2006/07 Audit Plan. He said that, on the basis of the audit work carried out to date, he would not be in a position to give an opinion on the accounts and the value for money conclusion by the statutory deadline of 30 September 2007. He said that this was as a result of the Council's delay in approving the Statement of Accounts. He added that the delay in the preparation of the accounts and the reasons for that delay meant that from an audit perspective the accounts were not necessarily higher risk than was previously assessed to be the case.

He said that the findings of the interim Audit Review had not yet been reported as completion of the audit work had been delayed due to the independent investigation that had been undertaken following the suspension of financial statements preparation process in June 2007. He said that the findings from this review would be reported in a combined interim and final accounts memorandum after the opinion had been issued.

He added that the Council was in a difficult and challenging position and this would be reflected in the work of the Audit Commission. However, at this

stage, there were no significant points which he would wish to draw to the Council's attention.

His report also summarised the current position in relation to the audit areas, detailed in the Audit Plan for 2007/08. The Director of Resources said that the finalised Statement of Accounts would be submitted to the meeting of the Committee on 6 November 2007.

Councillor Knight said that in a previous statement from the Audit Commission it had been highlighted that there was a lack of understanding of financial management amongst service managers and she asked what guidance had been given to improve this situation. Paul King said that comments had been provided, but it was for the Council to respond to these matters.

RESOLVED that the contents of the Audit Plan progress report be noted.

PS32

### **FINANCIAL MANAGEMENT 2005-2008**

The Chief Executive submitted a comprehensive report providing an account of the difficulties and issues in the Council's financial management processes which had contributed towards the Council's projected 2007/08 overspend.

He explained that a further report would be considered in the private part of the meeting and this dealt with identified individuals in the organisation and it was not in the public interest to discuss this in the open part of the meeting. He believed that the Committee could not resolve the matter without having the opportunity to discuss these issues in confidence. However, the conclusions would be made public.

It was noted that following the report to the Finance and Administration Committee on 20 September 2007, it was clear that the Council now faced a significant shortfall in resources during this financial year. The Finance and Administration Committee had agreed an action plan to resolve that shortfall during the year and also agreed adjustments to the medium financial strategy to reflect the revised position. The Committee had also instructed the Chief Executive to bring forward a report to the meeting of the Council on 9 October 2007 which would set out a more detailed set of plans and targets for financial recovery.

However, it was the responsibility of the Performance Select Committee to consider how this situation arose and what changes might be needed as a result of these considerations.

The Chief Executive explained that as part of the investigations he had sought support from Bedford Borough Council, but this support had not taken the form of a formal report or investigation on their part, due to its own workload on possible unitary status.

The report explained that the key issues which had arisen were:

- the need to suspend the process of the closure of the council's accounts on 26 June 2007, resulting in the statutory deadline of 30 June being missed.
- the draft accounts for 2006-7 when they were finally adopted at the Council meeting on July 31 2007 showed an overspend compared to original budget of £770,000.
- The discovery in the months following the adoption of the budget for 2007/08 of a projected overspend on the General Fund in 2007-8 of £1.1 million.

The Chief Executive reported that the intended arrangements for setting the 2007/08 budget were set out in a report to the Operations Committee in June 2006. This had set out a timetable leading to a detailed consideration of spending pressures, efficiency saving and fees and charges before each committee in January 2007, with the Operations Committee having the task of bringing all Committee recommendations together for a recommendation to Council in February 2007.

The Chief Executive explained that a number of elements of this programme did not happen according to plan, as follows;

- concerns within the finance service about the robustness of the council's financial management system led the Head of Finance to take the decision not to use the financial system to construct the budget. It was clear that this decision was a mistake in that the use of spreadsheets rather than the Council's main financial database meant that there was a need to transfer manually data between the systems, introducing additional complexity and opportunity for error. Concerns about the use of the main financial system to prepare the budget were in fact unfounded as it had been used successfully for the previous two years of budget build.
- A key tool for the creation of a robust budget and for making adjustments to it effectively was the establishment of an accurate base budget upon which adjustments could be made. It was now clear that in a number of areas this did not happen. The principal responsibility for managing this process rested with the Head of Finance.
- Public consultation on budget proposals was originally intended to take place between September and November – with committees receiving feedback on the consultation at their November meetings. In fact, most consultation happened in December 2006/January 2007.
- In September 2006, it was identified that savings options totalling some £952,000 would be required were all spending pressures to be agreed. However, requisite savings proposals were not produced. Budget managers were asked to exemplify the effects of 2%, 5% and 10% cuts to their budget but in fact proposals for total savings of only around £120,000 were in fact produced.

- The September 2006 report to Operations Committee identified six action points to reduce the gap between planned expenditure and available resources. These included: removing inflation provision from certain budgets; examining procurement practice, especially on large contracts; producing and examining the business case for all spending pressures. It cannot be demonstrated that these steps were in fact taken.

The Chief Executive's report then explained the events which had led to the budget setting exercise and concluded that, in retrospect there were some elements of the budget which were not robust, as follows:

- as reported to the Finance and Administration Committee, the actual amount built into the Council's financial systems for savings on staff turnover equates to some 7% rather than the 5% reported;
- the Council estimated that it would receive £600,000 in Local Authority Business Growth Incentive and in fact received only £236,000
- there was a variation between the amounts budgeted as savings targets for Organisational Reengineering and the anticipated savings set out in the documentation supporting the development of the OR programme.

The Chief Executive explained that once the budget had been agreed, the next major task for the finance team was to lead the process of the closure of the Council's accounts and the publication of draft accounts. He said that a key factor in the late completion of this process was the personnel failings within the finance teams and reputational damage to the Council in failing to close the accounts on time was significant.

He said that on 21 June 2007 a significant error had come to light in the way in which the Planning Delivery Grant had been budgeted for during 2006/07 which had the effect of overstating the Council's reserve strength by some £534,000. Also, the overspend that the Council incurred in 2006/07 had knock on effects into the current year.

The Chief Executive's report then turned to budget monitoring and it was noted that, with the exception of the error that arose as a result of the Planning Delivery Grant mis-statement, the significant overspends that occurred in 2006/07 were all reported to SMB and to Members. The Chief Executive said it was clear that the totality of the picture was not fully appreciated and that therefore there was a failure to address a significantly worsening financial position. He said that responsibility for that failure must be shared between those who failed to examine vigorously the information being provided and those who failed to provide the information in a way which made the overall picture fully clear.

The Chief Executive's report said that the final factor was the ongoing instability within the finance team and his report highlighted the main areas of concern. He clarified that there was not a general failing or level of incompetence within the finance section and many of the problems resulted from difficulties in recruitment and some of the interim arrangements.

The Chief Executive concluded that the following issues now needed to be addressed:

- What changes in process now need to be put in place to avoid a repetition of these issues?
- Do the difficulties experienced in recruiting appropriately skilled staff into the finance service call into question the strategic viability of a self-standing finance function within Uttlesford District Council? Or might a more sustained effort to ensure that a fuller staff complement was established have proved of more benefit than the various interim measures that were put in place?
- What steps are necessary to restore the confidence of members, managers, staff and the public in the financial management team and the processes and information they prepare?
- How does the Council move to a position where managers at all levels have a fuller understanding of financial management and their roles and responsibilities for it?

In conclusion the Chief Executive said that he had met with staff on 25 September and was heartened that staff were committed to providing first class services and turning things round.

Paul King from the Audit Commission said that there was a significant reputation issue in not completing the accounts on time. He did mention, however, that some other Councils had also had problems in meeting the deadline. He said that it was now important to look at which matters could have been seen at the time rather than looking at things with the benefit of hindsight. He concluded that the Council needed to consider how it would now take its self forward and what lessons could be learnt.

The Chairman said that the Council now needed to save in excess of £2m and in this context he had seen very little evidence of discipline in achieving savings so far. The Chief Executive said that efforts to achieve savings were reflected in the corporate restructure, the 2011 project and organisation re-engineering. He said that some savings had come forward, but further work needed to be done and he accepted that monitoring had not been robust enough.

Councillor Ketteridge said that he had made a significant challenge at budget time and had stated that the budget was not safe. At that time he had said that there were too many savings with no guarantees. The overspends would damage resources, there was uncertainty over the cost of the Waste Strategy, the procurement savings were not sound and there was no detail of how the management structure and transformation would provide savings. He said that he was so concerned at that time that, together with the Independent Group, he had written to the District Auditor stating that the budget was not safe. He concluded that the problems which he had highlighted were exacerbated by the errors which had subsequently been made.

Councillor Knight said that she took strong exception to claims that the problems were unexpected. She said that Members had repeatedly

expressed concerns that irresponsible decisions were being made in declaring the budget based on a 2% increase in Council Tax. She said that information had been challenged at every quarter and she questioned how the Council could recover from the current situation bearing in mind the staffing issues which had been highlighted. The Director of Resources said that staffing levels had not been a factor in the closing of accounts, but accepted that the process had not been managed well.

Councillor Gayler said that he had been Leader of the Council when the budget had been set. He said that there was a need for a high standard of financial reporting and this had not happened over the last year. He added that in trying to plan the budget in the Autumn of 2006 things were not as far forward as they should have been. He said that the reduction in Council Tax from 4.5% to 2% would probably not have taken place if all the information had been available at that time. He said that discussions with Finance had illustrated that a 2% Council Tax increase was robust and sustainable. However, the problems with the Planning Delivery Grant were not known until June 2007 and problems with the staff turnover factor were also unknown. He concluded that the key to improvement was for much better financial reporting.

Councillor Wilcock expressed concerns that the relationship between staff and Councillors may have broken down. However, he was convinced that the staff were committed to providing first class front line services. He agreed that if the financial situation had been clearer at the time, the decision on council tax would have been different. He said that there was a great need to bring the financial service back to the level of credibility that everyone could trust.

Councillor Barker asked how reporting could be improved to ensure that Members could properly monitor the situation. The Chief Executive replied that the current system had focused on regular reporting to committees and this needed to radically increase in frequency both to committees, on the internet and to SMB. He said that SMB had already taken steps to slow down expenditure but other savings would need to be identified. Councillor Rolfe said that he had insisted that this Committee should receive regular reports on how this Council's finances were matching budgets. He said that the Finance and Administration Committee would monitor the figures and this Committee would monitor the processes.

The Director of Resources said that all procedures were in place for reporting and the frequency would now increase. He said that he had given a view in February that the budget was robust. However, the savings did not come forward. However, he had considered that key factors such as the procurement target, the OR programme, restructuring and staff turnover were likely to balance the budget. He had also confirmed at the time that the reduction from 4.5% to 2% in the Council Tax increase was viable. However, this all changed due to the LABGI error, mistakes on reserves, the Planning Delivery Grant and the error on staff turnover. He said that a report to the Council Meeting on 9 October would set a revised budget for 2007/08.

Councillor Knight said that high staff turnover was not a good way to achieve budget savings and the loss of human knowledge was often damaging. She



said that staff needed more information and help in achieving savings and felt that there had been a lack of discipline within the budgeting system.

The Chairman then invited members of staff to make any additional comments or ask questions.

Sue Hayden said that staff had gone through a number of emotions including anger, dismay and sadness and morale was low, but she felt staff would bounce back. She added that staff would like to work with Members to move things forward, but needed to know where the Council was going and people in non-statutory services had particular concerns. Richard Snape referred to his involvement with school governors and the clear financial information which they received. He said that decisions needed to be properly documented and budget information needed to be provided in a clear and simple format. Val Rogacs questioned how Members could properly monitor budgets if they were not given the correct information. She said that over the past five years staff had received below inflation pay rises and most of them were council tax payers with a vested interest in putting things right. She concluded that some people who were once proud to work for Uttlesford were now ashamed to be associated with the Council.

The Chairman said that he would welcome the opportunity to work with all staff. He said that there must be a plan to balance the books and that it was a challenge, not a crisis and the Council needed a clear head, a clear plan and clear execution of the plan. Councillor Knight added that she would welcome input from staff on ideas on how the Council could make savings and prevent waste.

The Chief Executive stated that 80% of the costs of the Council were staff costs, but 100% of the value of the Council were its staff and many staff performed well above the requirements of their job.

Councillor Godwin said that she and many of her fellow Councillors had good relations with staff and she regarded it as a joint team. She felt that some Members did not have a sufficient grasp of the budget to see that things were not going well. She suggested that Members should drop the party system and work together for the benefit of the Council and said that the key was for better information and better communication.

Councillor Lemon said that the organisational re-engineering exercise had shown no significant savings and felt that it could not be carried out effectively by an in-house team. However, Councillor Wilcock felt that an in-house team could be successful where there was scope to see things through.

Councillor Chambers said that he wished to assure staff that the Leader and the Chief Executive were in the process of preparing a properly costed plan and hoped that this would give staff a clear sense of direction.

In response to a question from Councillor Barker, the Chairman said that a new staff suggestion scheme was being developed to help with staff feedback and plans would be made to ensure that a closer relationship was maintained with staff. Councillor Rolfe then moved the following Motion, which was seconded by Councillor Barker and it was

RESOLVED that the Committee notes with concern the failings of the Council's financial management processes and instructs the Chief Executive, in liaison with senior members, to take the necessary steps to restore the confidence of the public, members and staff in the Council's financial stability. It further instructs the Chief Executive to include in his report to Council details of the action taken and recommendations as to further steps required to address the weaknesses identified.

Furthermore, the Performance Select Committee needs to be reassured that:-

- The Finance Department has the manpower and capability to execute its functions
- Managers and budget holders are given the tools and the training to effectively manage budgets.
- There is a clear and detailed plan to reduce the deficit so that break even can be achieved in 2008/09 and that this plan is monitored on a fortnightly basis.
- There is a timetable for financial planning for 2008/09 and that this timetable is monitored fortnightly
- That there is regular feedback on progress to Members, management and staff.

### PS33 **EXCLUSION OF THE PUBLIC**

RESOLVED that under Section 100(A) of the Local Government Act 1972 the public be excluded for the following item of business on the grounds that it involved the likely disclosure of Exemption Information as defined in paragraph 1 of Part 1 of Schedule 12A of the Local Government Act 1972.

### PS34 **FINANCIAL MANAGEMENT – FURTHER CONSIDERATIONS**

The Committee considered the report of the Chief Executive which provided further information on a number of issues relating to specific members of staff and contractors, their performance and action being taken in response to those issues. The report also set out in sharper focus than was possible in the public report, some of the questions that had arisen for the organisation from these events.

The Chief Executive said that it was necessary to consider some significant steps in addressing the problems which had arisen. He said that the following steps had already been taken:

- Significant changes to processes had been taken to slow down and where possible eliminate council spending.

- There had been a thorough re-examination of the current financial situation to the extent that there could now be reasonable confidence that the currently reported picture was correct.
- Staff, managers and members had been fully briefed on the position and would be heavily engaged in continuing to monitor spending and income to bear down on any unnecessary expenditure and activity.
- A further report would be made by the Chief Executive to the Council at its next meeting on adjustments to the Council's action plans and its spending targets.
- The current investigation process in relation to two members of staff needed to be concluded. He said that the delay in concluding that process was unavoidable, but significantly hindered the opportunity to put new arrangements in place.

The Chief Executive said that it was clear that confidence in the Council's financial management procedures had been damaged and options to re-establish that confidence needed to be identified and appropriate action taken, if irretrievable damage was not to ensue.

Members then debated the report in full and examined the options which could be taken. It was concluded that the decision taken earlier in the meeting provided the framework for the way forward and the Chief Executive would pursue the course of action agreed at the meeting.

The meeting ended at 11.15 pm.