

**Redditch Borough Council**  
**Financial Health Check --report by W Roots**  
**February 2009**

**A. Introduction**

1. I was asked on the 13<sup>th</sup> January by Kevin Dicks (Acting Joint Chief Executive) of Redditch Borough Council to undertake a brief and rapid review of the Council's declared budget position for 2009/10 to 2011/12.
2. An extract from my terms of reference is set out at Appendix A. I must stress that the exercise that I have undertaken in a couple of days, which allows for reading and interviews undertaken, is narrow in scope and does not represent what is normally called a full financial diagnostic. Those people that I have interviewed are listed in Appendix B and I would like to thank them for responding to my questions and comments in an open and candid manner. I would also like to thank Susan Tasker for the excellent administrative support provided to me.
3. I set out at Appendix C for completeness the additional aspects that I would have needed to consider and the additional persons that I would have needed to meet had I set out to undertake a full financial diagnostic.
4. Given that the Council needs to determine its budget and the Council Tax level for 2009/10 in February; time is short and for this reason I have deliberately limited my analysis and questioning.
5. Also for this reason and since the Council is effectively paying for my advice, experience and judgement I have adopted a style of directly reporting and commenting based upon setting out my findings and recommendations rather than elaborating on the pros and cons of each issue addressed. Thus the points that I make will appear as stark and focus on areas where change is needed rather than seeking to present a balanced overall assessment of overall financial practice. I am of course more than willing to explain my thinking and the rationale behind my comments, if so required.

## **B. Findings**

### **Monitoring**

6. I have started here since I do not believe that an effective budget process or budget setting can occur in the absence of a robust and effective monitoring process. This is because while variations occurring need to be examined to establish why they are occurring and remedial action taken where appropriate they also vitally inform options for future plans. Effective monitoring is also necessary to ensure proper financial control.
7. The Council's monitoring processes need urgent attention for the following reasons:-
  - a. While I understand that spending officers are expected to review their financial position monthly from computer printouts (I have not checked whether they actually do) only quarterly information is produced for wider consumption. Until recently this information went to the Overview and Scrutiny Committee and not the Cabinet. The information produced compares the Annual Budget with cumulative quarterly expenditure to date but only seems to reflect payments that have actually reached the accounts ledgers. The information produced is very detailed but the key messages are not drawn out of the morass of figures and in reality it is of little value in terms of effective financial management information for senior decision makers.
  - b. Periodic overall monitoring reporting against the Council Capital, Revenue and HRA budgets and the impact on balances is weak. No apparent assessment is made as to the forecast end of year position which is where monitoring should focus apart from a predicted out turn report produced once each year in January (see paragraph 10). No reports on this basis have been to the Council's Senior Management Team or to members although I am aware that some portfolio holders do discuss performance with their Heads of Service.

- c. All monitoring should be on an exception basis—at present far too much detail is produced from which it is very difficult to draw out the key messages.
- d. No formal corporate Capital monitoring currently occurs at all although I understand that monitoring of spending does occur at Directorate level.
- e. Budgets have yet to be profiled.
- f. The intentions of finance staff to improve the information produced have been affected by the inability of systems to provide information in the required format. Interim arrangements although crude could have been made to monitor the most volatile areas of spending.
- g. Service and financial monitoring are not integrated thus operational performance can not really be judged. It is spending officers who should account for both their financial and service achievements.
- h. The understandable demand for change needs to be focused and certain if finance staff are to successfully improve the current weaknesses.

### **Financial Planning**

- 8. The Council did produce a Medium Term Financial Plan (MTFP) but not until December 2008. The Council's "Corporate Process Year Planner" shows that this should be produced in July. I am told that the delay was to enable the priorities of the new Administration to be established. I believe that it is vital that the first version of the annual update of the Medium Term Financial Plan and indeed the Corporate Plan (which would contain key actions and service indicators –see paragraphs 26 to 28 below) should be produced by June in each year at the latest. This would as I comment below give time to ensure that effective planning and decision making occurs for the coming three years. I set out in Appendix E a blue print of a systematic process which the Council may wish to follow.

9. Since inadequate monitoring information was available the December version contains, not surprisingly, an “inaccurate” forecast of the net budget gap to be filled for the coming three financial years.
10. The Council produces an estimated out turn report (January 2009 for 2008/09) which updates the original budget and shows the forecast outturn for the year. It is virtually a full budget statement showing budget lines together with a subjective analysis and full recharges.
11. This document updated the budget gaps forecast in the MTFP (reducing them). The document must be time consuming to produce as it is virtually a restatement of the complete revenue budget. It is only needed however because of the weak monitoring arrangements that currently operate in the Council. An effective monitoring system would give this information in a more timely, focused and less time consuming manner. Frankly the detail is of little real value as it is only a forecast, but what is important is what are the significant variations that are occurring and what are their impact on future years and balances. In other words the 23 Appendices are not needed and, in any event the commentaries on variations occurring are not complete to the extent needed for understanding the position as an outsider to the Council.
12. There are two figures in the report on the summary table on page 3 where it is not readily easy to see where the figures have come from. They are the “other variations” figure of £217,400 credit and the “other adjustments” figure of £192,800 credit. A brief note summarising the content and source of these two figures would be helpful.
13. I am not sure how much priority is given to risk management is within the Council but at face value it needs attention which I believe is recognised by senior officers.

### **Budget Options**

14. I had hoped that I could go behind the one line descriptions of the budget options, both Growth and Savings, for revenue and for capital and comment on them. However the basic information that I need to do this is currently being prepared. While I understand that pro formas

- do exist for Capital bids and for revenue service bids the same can not be said for revenue savings options. I have now (26<sup>th</sup> January) received an extract of the information under pinning some of the revenue bids and an early version of information supporting some of the savings options. In so far as the revenue bids are concerned I think that the Council should examine carefully those described as of “High Priority” to establish whether they are all needed in 2009/10 or whether some can be deferred. It is of course the savings options where the most sensitive decisions will need to be taken and further information is needed to facilitate this.
15. I have set out in Appendix C the information that I would expect to see to support a proposed expenditure reduction or increase in income.
16. I understand that a fairly rigorous process has been gone through by officers to identify the scope for savings and growth options have been minimised. I am however concerned about timing given the need to set a budget shortly allowing time for the involvement of those Councillors who have yet to see any of the proposed changes. It may thus be sensible to only approve the specific changes needed to set the 2009/10 budget and return to a three year planning and budgeting process in the spring of 2009. If this approach is adopted there would no need to await the formal budget timetable for 2010/11 onwards and the planned changes for 2010/11 and 2011/12 could be announced in the spring of 2009.
17. The fact that the Council faces the need to find economies stems primarily from the impact of inflation, capital expenditure and increased energy costs and a low increase (well below inflation) in government grant.
18. From my discussions there are a few issues that need to be dealt with, namely:-
- a. A summary note explaining the content of the two figures of £217,400 credit and £192,800 credit shown in the estimated out-turn report of 28<sup>th</sup> January 2009 would be helpful and reassuring (see paragraph 12 above)

- b. Where is the redundancy cost provided for should there be any arising from specific savings options selected? Some of the potential options as listed could involve redundancy.
- c. Pension costs in 20011/12 are likely to represent a much larger burden on the Council than forecast.
- d. Are all of the “High Priority” bids needed for 2009/10 or can they be deferred and can more of them be of a short term nature?
- e. Can more savings be found from the staff vacancy provision?
- f. What is the overall impact of efficiency savings and are all the options shown in the detailed sheets?
- g. Is the Council undertaking outsourcing/competitive tendering (per its stated priorities) sufficiently vigorously?
- h. Is the shared service agenda going to produce the economies sought and in what timescale?
- i. What is the impact of latest interest rate changes?
- j. While I have suggested that only making the decisions needed to balance the 2009/10 budget may be sensible if the Council can achieve greater savings and earlier than planned this adds to balances and makes managing future years easier.
- k. I believe that the options identified do at face value provide the scope to readily achieve a balanced budget in 2009/10 without the need to adopt risky options however the changes needed in later years will present a challenge to the Council and merit close analysis. Some radical options may need to be revisited e.g. the transfer of Housing Stock.
- l. The Council is clear that it wishes to avoid “salami slicing” budget reductions and it is important to adhere to this principle because “salami slicing” is an ineffective way in which to achieve economies.
- m. Is the Council doing enough to use its property assets either to generate capital receipts or maximise revenue or redevelopment opportunities?
- n. Ensure that all the recurring variations arising from 2008/9 have been reflected in the revised gap analysis now available (copy received 26<sup>th</sup> January) for 2009/10 onwards and where permanent economies can be made, they are reflected in the budget options.

## Culture

19. It was very apparent to me that there are risks that practices, which have existed in the Council for many years, may possibly become engrained as the only way to do business. There is a question mark over whether there is sufficient knowledge amongst Council Officers as regards what other best practice Council's do and whether they have the ability to lead the change in practice needed, without further guidance.
20. The manner in which decisions were taken by the previous Administration was I was advised significantly different to that sought by the new Majority Party. I am not clear that all staff fully appreciate that the changes in practice being made are intended to represent the manner in which the Council will undertake its business in future.
21. The impact of the changes being sought should not be underestimated and there is a need to ensure that the relevant staff really do understand what is needed, there is certainty on the changes being sought, and that the resources to effect the changes are adequate. I have not examined these points in any detail but they do need to be addressed.
22. I think the fact that the Council's most senior Finance officer is at third tier level does not assist with the need to restore belief in the capability of the finance function and ensure a strong regime of financial control. I would also add that contact with the portfolio holder is not as close as it should be. I know that bringing certainty to the future officer structure of the Council is understood and planned by members but rapid attention to the top two tiers beneath the Chief Executive is pressing.
23. I am aware that the business case for shared services and in particular the joint officer structure will address this issue. Members will however wish to consider whether the timescale to address the top structure of the Council will in reality be early enough to meet their needs. It may well be appropriate depending upon timing to effect an interim solution.

24. The quality of reports also needs attention. They are overly long; contain some unnecessary errors, are not written with the audience in mind, and adopt a laborious rather than a smart approach to decision making. A classic example of the last point is the February 2008 Capital Programme approval report which had 18 recommendations and ran to some 80 pages.
25. There is however a professional pride within the finance function that needs to be channelled since it is apparent to me that there is a desire to fulfil their role in an effective way. Competent and strong leadership will be needed to deliver the type and quality of service required by the Council.

### **An integrated Business Planning and Performance Management System**

26. I have commented above about some of the core weaknesses that the Council suffers from as regards its financial processes. Much of what I have said is not news to the Council but confirmation of the concerns already held by senior officers and members. I believe it to be vital that the Council adopts an effective process for Business Planning and Performance Management. My experience in visiting under performing and problematic local authorities throughout the country is that almost inevitably that such a system is lacking or non-existent.
27. In the Council's case I can find no evidence of a reliable system in recent years and I believe that this goes to the heart of why the concern about the quality of financial information exists. I attach at Appendix E an outline of the process that I would recommend coupled with a diagrammatic presentation and an outline annual timetable.
28. 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. Monitoring must be on the basis of projected outturn for the year with service and financial performance being considered together. In implementing such a system training for both members



and officers will be needed to ensure that roles and responsibilities are clearly understood.

### **C Conclusion**

29. The Council has a number of the features in place to achieve an effective finance function such that it can rely on the quality, relevance and timeliness of information provided. There are however a number of weaknesses in current arrangements which need to be addressed to achieve level of service required by senior officers and members.

30. Action being taken or planned by the Council is appropriate with the immediate focus understandably being the setting of the 2009/10 budget however to achieve the desired standard in the future the Council will need to

- a. Implement an effective Business Planning and Performance Management process
- b. Recast the officer structure,
- c. Strengthen the role of Finance and review the level of resources available within the function, and
- d. Make it very clear that the Council is undoubtedly seeking a change of culture and practice in its core processes.

31. I understand that a number of the points that I have raised above have already been actioned by the Acting Joint Chief Executive but I have commented issues as extant at the time of my view. In taking further action the Council will need to allow for action already in train.

### **D Recommendation**

32. That the Council considers the points that I have raised in this report and prepares a plan to address them having regard to both the timescales needed to determine the 2009/10 budget and where action is already being taken to change current practice.

**Appendix A**

**Redditch Borough Council**

**Outline of Specification—Financial Health Check**

The review will focus on the declared budget gap faced by the Council for 2009/10 to test its accuracy and voracity.

The process to arrive at the figure will be examined to establish how robust it is.

The context in which the gap has been arrived at and whether any particular factors have a significant bearing on the Council's financial position will be identified.

Options identified to meet the gap will be examined to test the service and political implications and any other options that may exist will be identified.

The review will comprise pre reading where I would ask that the Council supplies, initially, the following documents in advance of my visit:-

1. The budget setting report for 2008/09—which will need to cover capital expenditure too.
2. The last two monitoring reports both capital and revenue.
3. Any reports on the forecast gap for 2009/10.
4. The list of options to close the gap plus the list of additional commitments built into the budget forecast.
5. The latest version of any Medium Term Plan.
6. The latest Annual External Audit letter.
7. The final accounts report for 2007/08.

I anticipate that I would want to have 45 minute discussions with:-

1. The lead member for Finance
2. The Leader of the Council
3. The Chief Executive
4. A senior Service Director
5. The opposition spokesperson for Finance
6. The chief Accountant or their equivalent

## APPENDIX 1

I would want at least a 1 hour discussion with the S151 officer. Hopefully all interviews could be arranged on the same day to avoid costs and delays.

I anticipate that the task would take no more than 4 chargeable days comprising:-

1. 1 day pre reading and travel assuming only one trip for interviewing
2. 1 full day interviewing provided all on the same day
3. 1 day report writing and follow up
4. Up to 1 day for report presentation to members and management team if required

**Appendix B**

**Persons Interviewed**

Mike Braley, Deputy Leader and Portfolio Holder Corporate Management

Kevin Dicks, Acting Joint Chief Executive

Carole Gandy, Leader of the Council

Malcolm Hall, Leader of Lib Democrats

Sue Hanley, Acting Deputy Chief Executive

Bill Hartnett, Leader of Opposition (Labour)

Teresa Kristunas, Head of Finance & Sam Morgan, Finance Manager

Colin MacMillan, Portfolio Holder Environment etc

Appendix C

**Main Additional Issues which would need to be covered to achieve a Financial Diagnostic**

Corporate Planning process and content  
Community Plan process and content  
Strategic Partnerships  
Performance Management in practice  
Service Planning process, outcome and monitoring  
Integrated Performance Monitoring  
Internal Audit effectiveness  
Balance sheet control—debtors, creditors etc.  
Financial regulations and Standing Orders  
Relationships  
Asset Management  
Risk Management  
Selective service reviews and External Audit reviews.

I would wish to meet some key external partners, the External Auditor, 3 or 4 Heads of Service, all Directors, a group of Accountants, the Chief Internal Auditor, and a group of back bench members in addition to those persons set out in Appendix B

Appendix D

**Information to support an expenditure reduction proposal or income increase**

Option no. and description of proposal			
Budget Code			
Base budget	£	Last real change	
Justification for change (including market and OLA comparisons for income)			
Link to Council Priorities			
Impact on public			
Impact on performance indicators			
Impact on Staff			
Incidence of change	2009/10 2010/11 2011/12 Full Year		

Appendix E

**Business Planning Summary**

**A 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. Underpinning the Council Plans are individual Service Business Plans which set out in more detail how the issues highlighted in both the Council 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.
4. 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.
5. The Council Plan is subject to formal approval by the Council. The Cabinet should be responsible for approving the Key Actions and Service Standards sections of individual Service Plans.
6. The plans also form the basis for the objectives set for Council officials against which they are appraised.
7. Annex 1 (overleaf) sets out in brief diagrammatic form an effective Council Planning and Monitoring process. It allows for those authorities that have Local Strategic Partnerships and Improvement Plans as a result of low scores from the Audit Commission
8. Annex 2 shows an alternative diagrammatic presentation

**Monitoring**

9. Departmental Management Teams are required to monitor their performance against the Council 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 appropriate Cabinet portfolio holder.
10. Performance against the Council Plan is reported to the Senior Management Team on a monthly basis with a quarterly summary report going to the Council's Cabinet and the Audit Committee. Reports cover resources (capital and revenue on a projected out turn and exception basis), progress on key actions and service performance data.
11. 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 Senior Management Team for upward reporting if necessary.
12. The monitoring of staff performance is achieved through the staff appraisal process which is annual with a half yearly review.

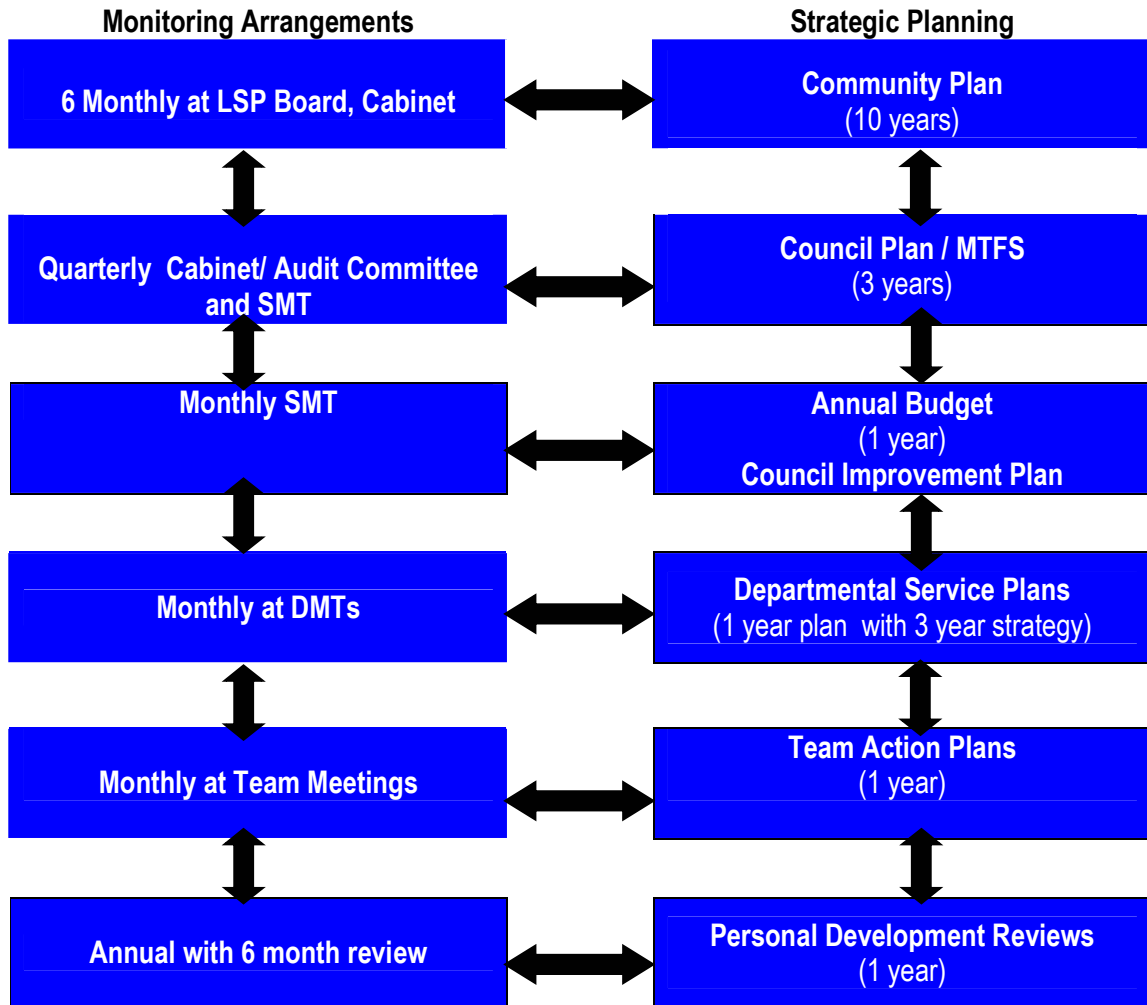
**The annual timetable**

13. A summary of the Annual Timetable is set out in Annex 3 using 2009/10 as the base year.



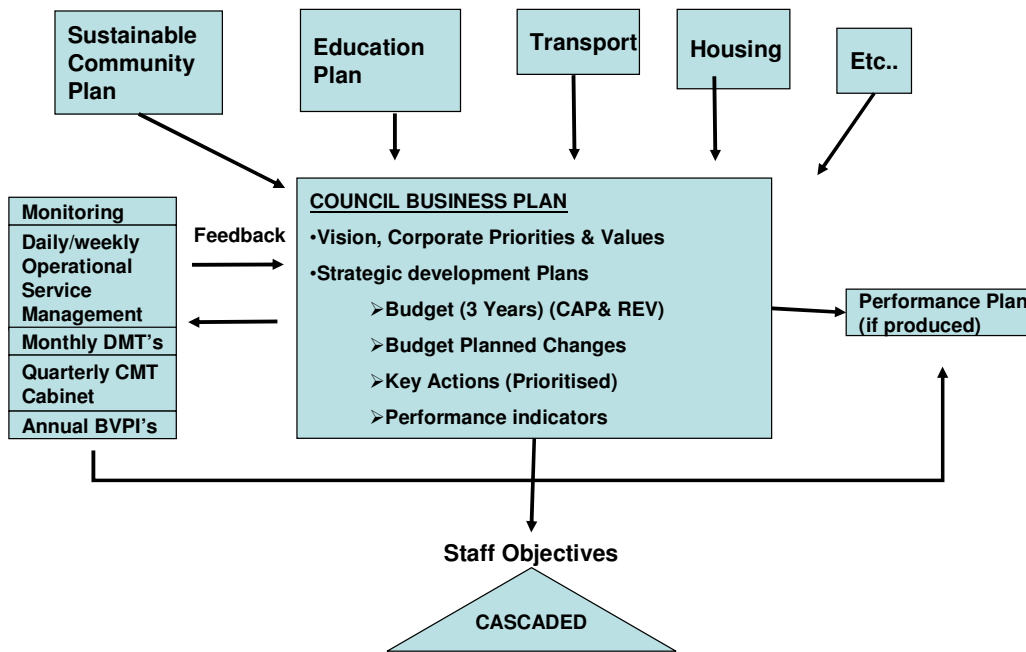
Annex 1

Diagrammatic Presentation of XYZ's Planning and Monitoring Process



## Business Planning and Performance Management

- So What does it look like?



**Outline Business Planning and Performance****Management Annual Timetable-**

(Outline for actions in the year 2009/10 shown)

DATE	ACTION OR EVENT	PERIODS AFFECTED		
		2008/9	2009/10	2010/11 to 2012/13
March 09	-Set Council Tax (includes revenue and Capital budgets)		√	
April 09	-Council Plan and Service Business plans published		√	√ (2010 and 11/12 only)
	-Issue Council Imp Plan (If needed)		√	
June 09	-Financial Out turn 2008/9 revenue and capital reviewed and reported	√		
	-Key performance indicators out turn reviewed and reported	√		
	-Month 1 monitoring report (finance; key actions and PI's to SMT **		√	
	-Month 1 Imp Plan monitoring report to SMT and Cabinet **		√	
July09	Financial prospects reported and MTFP updated			√
Aug 09	-First quarterly monitoring report to Cabinet/committee (covering finance; key actions and PI's)		√	
Sept 09	-Detailed budget timetable issued			√
	--Budget Remit set			√
Oct 09	-Draft options for growth and savings considered by SMT having regard to Council and service priorities			√
Nov 09	-Star chamber meetings with Majority group			√
	-Second quarterly monitoring report to SMT ,Cabinet /committee		√	

## APPENDIX 1

Dec 09	<ul style="list-style-type: none"> <li>-Budget Options reported to the Council prior to public consultation</li> <li>-Preparation of draft Service Business Plans and Council Plan</li> <li>-Public Consultation re 2010/11 budget and plans for 2011 to 2013</li> <li>-Scrutiny review of budget</li> </ul>			<ul style="list-style-type: none"> <li>√</li> <li>√</li> <li>√</li> <li>√</li> </ul>
Jan 10	<ul style="list-style-type: none"> <li>- Finalise Council               <ul style="list-style-type: none"> <li>• Budget</li> <li>• Service Plans</li> <li>• Council Plan</li> </ul> </li> </ul>			<ul style="list-style-type: none"> <li>√</li> <li>√</li> <li>√</li> </ul>
Feb 10	<ul style="list-style-type: none"> <li>- Third quarterly monitoring report to SMT, Cabinet</li> </ul>	√		
March 10	<ul style="list-style-type: none"> <li>-Set Council Tax</li> <li>-Distribute Council Plan and Service Plans</li> <li>-Finalise Staff Objectives and complete PDR's</li> </ul>			<ul style="list-style-type: none"> <li>√ (2010/11 only)</li> <li>√</li> <li>√ (2010/11 only)</li> </ul>
April 10	<p><b>Process starts again as above</b></p>			
May 10	<ul style="list-style-type: none"> <li>-Fourth quarterly monitoring report to CMT, Cabinet and Council</li> </ul> <p>** These reports are repeated monthly but not shown here to avoid cluttering this document</p>	√		