

Adur & Worthing Councils

A Joint Council Finance Peer Review

On site 27th – 29th November 2018

Feedback Report January 2019



ADUR & WORTHING
COUNCILS

1. Executive Summary

The demographics of both Adur and Worthing are changing rapidly. The role of Worthing as a destination retirement area for London retirees is no longer that important. Younger people and families are moving to the area as house prices are generally significantly lower than Brighton or Hove and the area is within commuting distance of London. Providing homes to support this migration and demand is a significant challenge for areas with high environmental constraints, especially in Adur.

In response to these and other challenges, Adur and Worthing councils have set out an ambitious agenda for change in its 'Platforms For Our Places' (P4OP) initiative that builds on earlier strategies. This sets out a more interventionist and innovative agenda for change than many other traditional models of leadership or service delivery. The scale of these initiatives and projects is ambitious, as are the funding requirements arising from it. The councils have shown a clear ability to innovate and change illustrated by a Digital Strategy that has received widespread national recognition for building localised digital platforms that have saved money and provided easier customer interaction.

Both councils have generally performed well in maintaining services through a continuing period of reducing budgets without undue reliance on reserves to deliver a balanced budget. It is essential however to recognise that in order to deliver the scale of their ambitions and ensure long term improved outcomes for their residents, businesses and visitors, both councils require long term financial stability and security. With uncertainties over local government funding and the move away from Government grant to rely on local revenue and tax collection, this is a significant challenge.

At present the peer review team consider that the councils could be characterised as living too much on the basis of short-term financial planning. Day to day financial management is generally sound with systems improvements planned to address the need to provide better monitoring information to management. However, there are significant gaps in strategic financial management and long-term comprehensive budget planning. Efficiency savings of £1.8m required across the councils in planned budget savings for 2020/21 have still to be clearly identified. While the councils have a three-pronged approach to deliver budget savings, including commercialisation and strategic property investment – some of this is very new and brings significant risk.

Reserves at both councils are very low as evidenced by The Chartered Institute of Public Finance and Accountancy (CIPFA)'s resilience index. Although reserves and working balances are subject to annual scrutiny by the external auditors to the councils, and while additional provision in relation to initiatives such as property acquisitions is to be welcomed, wider financial stress tests against the council's new P4OP have yet to be undertaken. There is a need for a more comprehensive and integrated medium- and long-term financial strategy planning, especially given the increasing risks in the councils' ambitions to increase income.

Political leadership is clear and members are generally unified behind the P4OP vision. Managerial leadership is stable and the peer team see clear opportunities for the councils to tackle the financial challenges for the area. Future opportunities exist to save money by bringing Adur and Worthing councils even closer together, if not in terms of one single unified council, certainly in terms of better streamlining of systems and procedures and recognising local jurisdictions through practical harmonisation of policy. Building stronger

partnerships with West Sussex County Council in particular, will be important to avoid cost shunting.

2. Key Recommendations

There are a range of suggestions and observations within the main section of the report that will inform some 'quick wins' and practical actions, in addition to the conversations onsite, many of which provided ideas and examples of practice from other organisations. The following are the peer team's key recommendations to the councils:

- **Build a stronger financial management culture throughout the organisation, including commercial skills development** – financial business partnering is a relatively new approach within the councils and a greater clarity around the respective roles of finance and budget managers and a better budget system along with focused training would help to embed this. Expert training to upskill managers in commerciality would strengthen business performance and improve financial health.
- **Strengthen strategic financial capacity** – given the financial challenges both organisations face, increasing capacity for strategic financial planning should be a key consideration as should the lack of a strategic finance professional at the 'top table' of Corporate Leadership Team (CLT). CIPFA's statement on the role of the Chief Financial Officer provides useful guidance.
- **Maximise the potential of the new financial system** – the implementation of the new finance system should be used as a catalyst for change across the organisations, providing opportunity to challenge current working practices, streamline processes and free up finance capacity for more value-added work.
- **Develop savings plans at pace with risk mitigation strategies in place** – consideration of the risk to delivery of these plans along with alternative strategies and options should savings not be delivered is crucial.
- **Maintain and bolster reserves in line with risk exposure as necessary** – given the very low level of reserves against the backdrop of ambitious aspirations and the risks these bring within the Councils' Medium-Term Financial Strategies (MTFS) the level of reserves need to be critically reviewed. Reserves provide a cushion to cope with 'shocks in the system' and help to avoid unplanned service cuts if savings cannot be delivered quickly enough.
- **Review the way members and the political governance structure engage with the new agenda** – In view of the relatively radical new approach to delivering services and facilitating the growth of the two communities it is essential to ensure the committee structure makes the best of the members skills. The present structure could be streamlined and clarified to better complement the direction of travel and member training refined to focus specifically on the contribution expected from each elected representative.

- **Harmonise policies and streamline processes and systems across both councils where ever possible** – the peer team understand that each council has local jurisdiction and will have its own priorities, but where possible harmonising approaches will help to deliver operational efficiencies and potentially improve clarity for citizens.
- **Ensure that the key priorities of the Councils are clearly communicated and understood by staff and the community** – lack of clarity and focus inevitably drives additional cost.
- **Performance management framework needs to support key priorities and signal early warnings regarding investment and value** – financial data is largely backward looking and needs to be seen in the context of wider performance data so that rounded insight is used to drive action and value for money.
- **Ensure processes for commercial investment are transparent and involve rigorous internal controls to mitigate risk** – a clear framework is in operation but timely input from all relevant stakeholders is important to ensure sound due diligence.
- **Develop the workforce and member development programme further to recognise the new agenda** – building financial understanding and capacity underpins a strong financial management culture and targeted programmes to develop both officers and members would be beneficial.

3. Summary of the Peer Review approach

Summary of the Peer Review approach

Peer team

Peer challenges are delivered by experienced elected member and officer peers. The make-up of the peer team reflected the Council's requirements and the focus of the peer challenge. Peers were selected on the basis of their relevant experience and expertise and agreed with the Council. The peers who delivered the peer challenge at Adur and Worthing councils were:

- Karen Iveson, Chief Finance Officer, Selby District Council
- Cllr Jeff Cant, Leader, Weymouth and Portland Borough Council
- Stuart Bobby, Director Corporate Services, Gravesham Borough Council,
- Helen Seechurn, LGA Associate
- Robert Hathaway, LGA Peer Review Manager

Scope and focus

The peer team considered the following five questions which form the core components looked at by all Finance Peer Reviews. These are the areas we believe are critical to councils' financial performance and improvement:

- 1. Financial leadership:** Does the authority have plans for its long-term financial sustainability which are owned by its councillors and officer leaders?
- 2. Financial strategy, planning and forecasting:** Does the authority understand its short and long-term financial prospects?
- 3. Decision-making:** Are key decisions taken in the understanding of the financial implications, risks and options?
- 4. Financial outcomes:** Are financial results (including those of the Council's capital investments and transformation projects) monitored and acted upon so as to realise the authority's intentions?

5. Partnership & innovation: Is finance at the cutting edge of what the authority is working to achieve, working with partners and seeking innovative approaches? You also asked the peer team to look at 9 related areas and these were covered as part of the 5 themes above. These are

- How can we increase our strategic finance capacity for the councils overall, and particularly in key areas such as property investment, housing, commercial income generation?
- How might we develop more of a consultancy approach to strategic finance for our business leaders?
- How can we make the most of the strategic skills currently within the finance team, and how might we develop flexible arrangements externally to augment internal skills and capacity build?
- Are there opportunities to improve the interface between the finance team and service department to align financial service resources and skills to the needs of the business?
- How might budget management and reporting be improved in terms of forecasting accuracy, and clarity and consistency of information with managers?
- Are there opportunities to streamline standard processes to increase efficiency?
- Are we providing effective and clear reports to members and CLT?
- Is our interpretation of the use of capital monies up to date? For example, we build software in-house, and we are not currently using capital to do so.
- Is our reserves position well managed? Could we safely be identifying a larger 'innovation' fund?

It is important to stress that this was not an inspection. Peer reviews and challenges are improvement-focussed and tailored to meet individual councils' needs. They are designed

to complement and add value to a council's own performance and improvement focus. The peer team used their experience and knowledge of local government to reflect on the information presented to them by people they met, things they saw and material that they read.

The process is not designed to provide a technical assessment or due diligence on financial matters. Neither is it intended to provide prescriptive recommendations. The peer review process intends to provide feedback, observations and insights from experienced practitioners that will help validate, reality check and further develop the Council's current plans, proposals and evolving thinking about the future.

The peer review process

The peer team prepared for the peer review by considering a range of documents and information in order to ensure they were familiar with the Council and the challenges it is facing. The team then spent two and a half days onsite at the Council, during which they:

- Spoke to more than 84 people including a range of council staff together with councillors and external partners and stakeholders.
- Gathered information and views from more than 32 meetings and additional research and reading.
- Collectively spent more than 160 hours to determine their findings – the equivalent of one person spending nearly 4 weeks in Adur and Worthing councils.

This report provides a summary of the peer team's findings. It builds on the feedback presentation provided by the peer team at the end of their on-site visit (27th-29th November 2018). In presenting feedback to the Council, they have done so as fellow local government officers and members, not as professional consultants, auditors or inspectors.

By its nature, the peer review is a snapshot in time. The peer team appreciates that some of the feedback may be about areas the councils are already addressing and progressing.

4. Feedback

4.1 Financial Leadership

General

Political and managerial leadership remains innovative in the face of delivering services in periods of continuing austerity. Both councils have a long tradition of innovation, being two of the first councils in the country to join up their structures in 2008. In particular the Chief Executive working with the two political leaders has led the organisations into a new phase of innovation leading both councils to be more outward facing and outcome focussed.

At a strategic level the peer team observed strong ownership of financial management. However, whilst the senior team were able to articulate the Councils' financial strategy, this was not the case with the majority of middle managers.

Priorities

Helpful articulation of the vision for the communities of Adur and Worthing are expressed in P4OP (refreshed) 2018-20. This sets out a three-year programme of activity to 'create the essential Platforms for prosperous, healthy, happy and connected communities.' 'Services and Solutions' is one of the five main Platforms to deliver a better quality of life, and this lists 'financial management' and 'use of our property assets' as key components. This recognition that sustainable financial management lies at the heart of investment and opportunities to support priorities in P4OP is an important theme.

While the programme of activity – with over 140 projects in P4OP – is impressive and comprehensive, the peer team did not get a clear sense of prioritisation. However, the peer team concurred with the councils' view that one of the challenges looking ahead is the need for clearer prioritisation and political decisions concerning what not to invest in or grow. Also, while finance and other staff had caught sections of the vision and Platforms, it was difficult for them to consistently see their role and their team's place in driving this forward, and what priority of the councils they should be investing their efforts in at any moment in time.

The peer team appreciate that P4OP is not a full list of all the council's activities and that prioritisation involves hard choices. You shared your concerns that allegiance to defined priorities would unnecessarily curtail innovation and 'just doing the right thing'. As the saying goes, if everything is a priority, nothing is. And in order to sharpen financial support for key political priorities, these need to be chosen, relentlessly implemented and backed by good strategic communications to publicise success. Reducing key priorities also has the potential to increase capacity both in terms of staff and money. Such prioritisation of course does not rule out the ability to seize new opportunities as they arise but in order to ensure delivery, a 'one in, one out' approach may need to be considered so as not to overload staff.

Strategic Gap in Financial Management

Additional strategic financial capacity is required as part of CLT. This is particularly pertinent given the size of the financial challenge beyond the current year and with an enhanced risk profile through taking on a greater range of commercial activity and regeneration with its attendant risks. The current would be better served with complementary finance professional able to provide strategic financial advice and exercise independent judgement on financial standing and risk exposure. Embedding strategic financial capacity at the 'heart' of the organisations is a clear recommendation for Adur and Worthing.

It appeared to the peer team that the councils were not adequately getting ahead of the curve in working on clear savings or income generation over the medium term. This is exemplified by the fact that barely 15 months away from the 2020/21 financial year, when savings would be required from April onwards, there remains a £1.8m gap in the budgets of the two councils, and during the course of the visit the plans to bridge this funding gap could not be comprehensively articulated. One of the recommendations is that savings plans or income generation are developed and implemented at greater pace (subject to appropriate risk controls).

Integrated working with statutory officers

The councils ensure that all committee reports benefit from review by statutory legal and financial officers. However, the peer team consider that there are opportunities to tighten the oversight and involvement of statutory officers in contributing to strategic direction, commercial due diligence and effective risk mitigation in the absence of routine representation at CLT. Some councils adopt a practice of regular statutory officer meetings to provide assurance that their fiduciary duty can be effectively discharged. In the increasing commercial operating environment for the councils it is important that the Section 151 and Monitoring Officer statutory roles have clear opportunities to talk through probity and governance risks.

Reporting

Financial reporting to members provides opportunities for engagement however ownership among members appears variable. Formal reporting occurs through reports to Joint Strategic Committee, Joint Overview and Scrutiny Committee (JOSC) reports and full Council. The Director of Digital and Resources and Head of Finance have regular meetings with Executive members for resources, and regular meetings with Executive members in regard to Strategic Property Investment Programme. The CLT receive monthly update financial reports.

Members on JOSC advised that they valued the financial reports and had trust and confidence in officer reports. They commended the Head of Finance for her technical ability and willingness to helpfully address members' questions at committee.

The 2019/20 – 2023/24 MTFs reported to members on JOSC indicates there is 'no prospect of any easing of the financial pressure for the next few years'. However, the peer team did not sense that there was overall appreciation by members of the size and scale of future savings required and the need to consider a number of opportunities for savings and boosting income. The peer team would encourage a greater sense of 'whole councils' ownership of the financial challenges.

A strong variation in members' understanding of the financial direction exists with a lack of clear sight on the savings programme. Adur members seemed better connected to the strategic finances, while a smaller number of Worthing councillors had a good grasp of strategic finances and especially lack clarity on the MTFs. Some suggestions were made around the delivery of further training sessions for members as a way of improving this financial understanding and ownership.

Two Councils and Governance

The two-council model of governance appears to produce some inconsistencies in service delivery and produces additional costs. Despite a decade of joint strategies, strategic management and staff, Adur and Worthing remain sovereign councils with the attendant needs in financial management of reporting, accounts, external audit etc. In effect, this results in the day-to-day maintenance of three ledgers for the councils – one for each sovereign council and one acting as a holding account for central services that are then reapportioned across the two councils. It was mentioned during conversations with staff that this can result in difficulties understanding the true budget costs of individual services, and a significant amount of time being invested in recharging of costs across both councils

which could otherwise be spent supporting the aspirations and activities that the councils are involved in.

The majority of staff interviewed considered that the financial challenges faced by both councils should concentrate the minds of councillors to consider formal merger. This they saw as a significant way of acting strategically to reduce overheads and costs to balance the budgets. Staff saw this as the logical next step in the evolution of the local areas, especially given the level of shared vision and strategy. They recognised how hard this would be for those councillors who held strong allegiance to the distinctions between Adur and Worthing but noted that up and down the country, local models of governance were changing as councils merged.

However, in discussing this with political leaders at the councils there is little political appetite from leaders to consider formal merger or unify in the short term. Notwithstanding this there are opportunities for the councils to harmonise policies, processes and systems in order to save resources. Finance staff and budget managers said that there were times that they struggled with different demands and systems given inconsistencies in approach. The peer team did not undertake an audit of possible areas but those brought to our attention were council tax support, planning, taxis, and environmental health.

4.2 Financial strategy, planning and forecasting

Strategic Financial Direction and Budget Challenges

The councils can be commended for taking £3-4m out of the base budget with savings of 5 per cent of gross spend. They have also managed to maintain generally good service delivery in the age of austerity without drawing on their reserves.

However, the councils currently operate with low working balances and this absence of a strong contingency budget remains an area of risk that needs to be tackled; especially given the large-scale ambitions for improving the quality of life for residents, businesses and visitors to the area. As demonstrated by **Table 1** below, both councils face a significant – and in Worthing’s case a growing – budget deficit.

Reserves at both councils are very low. Both councils are lower quartile for south east district councils in relation to the level of unringfenced non-Housing Revenue Account (HRA) reserves 2017/18 (as a percentage of net revenue expenditure) with Adur and Worthing ranked 54 and 52 respectively out of 55 councils¹. While the overall level of reserves is ultimately a matter of local judgement taking into account local factors, future requirements, risks and issues, the sufficiency of reserves to provide a buffer is a key factor in maintaining overall financial health.

¹ LG Inform

Table 1 – Budget Challenges

| | Adur | | Worthing | |
|--|------|----|----------|-----|
| Net Revenue Spend (2018/19) £m | 8.6 | | 13.5 | |
| Current remaining gap: | | | | |
| 2020/21 | 0.5 | 5% | 1.0 | 7% |
| 2023/24 | 0.3 | 3% | 1.6 | 12% |
| Financing costs as % of Net Revenue Spend Non HRA (2020/21) | 63% | | 38% | |
| Estimated Unringfenced reserves as % of Net Revenue Expenditure – rank of SE districts (55) 2017/18 | 54 | | 52 | |

Source: Adur and Worthing councils

Of particular note, while Adur has a current revenue budget gap by 2023/24 of 3 per cent, it is faced with a growing capital financing cost² expected to rise to 63 per cent by 2020/21. This in turn reduces scope for the development of future savings. Furthermore, at Worthing, a cumulative saving gap of £1.6m remains by 2023/4 (that is, £1 in every £8 spent needs to be found in savings).

The councils asked the peer team on site what it would take in cash terms if Adur and Worthing were to have reserves at a south east district council mean. Work that the peer team has done off site suggests this should be an additional £9m for Adur and £12m for Worthing based on current budget size and distance to the mean. However, this is a crude measure and as suggested during our on-site period, an assessment of reserves based on risk would be more appropriate. Examples of good practice will be shared with the councils.

In summary, financial resilience is a concern given very low reserves and inherent risks. This view is supported by the councils ranking in CIPFA’s resilience index. Especially given that the long-term savings plan is not nailed down with commercial investment financed by increased borrowing. Long-term community outcomes cannot be built without financial sustainability and the peer team are concerned that the councils could be overstretching themselves especially through getting locked into borrowing.

Financial Management Arrangements

It was clear to the peer team that the Head of Finance is a highly respected individual both within the finance service, and by wider officers and members. The officer has taken personal ownership of many aspects of the councils’ savings plan, such as improvements in procurement practice, to ensure that the desired outcomes are achieved.

² based on the Council’s Treasury Management strategy 2018/19

Some aspects of financial management arrangements in terms of budget monitoring and forecasting could be improved with the need for proactive budget ownership and tracking required to deal with over and underspends. Financial business partnering is a relatively new approach within the councils and greater clarity around the respective roles of finance and budget managers along with focused training would help to embed this.

Budget managers and staff considered that the application of recharges late in the year as a weakness in financial management. The peer team saw a need for greater clarity in relation to the level and setting of recharges which was causing budget holders challenges in terms of presenting the final budget out-turn.

A particular area of concern among budget managers was budget setting with a number feeling disconnected and lacking ownership of budget lines. Some referred to the decision-making process as being 'done to us' and 'death by salami slicing'. Recognising that hard decisions need to be made concerning prioritisation it appears to the peer team that a way needs to be found to increase budget managers' ownership of the service budget process. The councils should review what opportunities could be taken to increase ownership of savings and income plans at this key delivery and management level. Budget managers expressed a desire to be more involved in the delivery of budget savings, and this could well be an opportunity for the organisation as it seeks to develop a more comprehensive budget strategy.

Generally good relationships exist between service departments and the finance team and finance understands the business. Budget managers reported good team working and trust and confidence in financial managers and accountants. Business partnering is relatively new and the peer team were told quality depends on individuals. Financial management culture in the organisation is improving but ownership throughout the organisations is inconsistent. In terms of broader financial awareness and commercial skills there is a need to build ownership and confidence and provide with necessary skills. Business planning, management and processes need to be more effectively supported. The peer team were told that the current tools and systems do not work for all service managers with concerns about the modernity of IT support.

Managers advised of planned investment in a new finance system that would be more efficient and had the potential to release some capacity into the system. Improved systems should build more capacity and importantly, act as a catalyst for change across the organisations. The peer team strongly recommend that the councils maximise the potential of the new financial system.

In overall terms there is a need to modernise the finance system with a focus on:

- building capacity;
- streamline FPR (this is discussed elsewhere at the moment);
- systems;
- training;
- proactive budget monitoring; and
- review recharges policy.

Housing Revenue Account

Adur Homes and Adur Council are improving their strategic financial approach to the local authority housing stock via the HRA. Recognising weaknesses in stock condition surveys and under investment in the housing stock, a 30-year business plan is now in place that restructures the debt portfolio and plans to bring the HRA out of deficit in 2022/23. This seeks to deal with a fall in rental income and use of HRA reserves that has been driven by Government policy changes around rent setting.

Adur Homes is now starting to build homes and the 'Hidden Homes' scheme is using under utilised land to build small groups of new homes.

Opportunities to use the HRA exist to improve financial performance and these include:

- Transferring HRA garage and shops income to the General Fund - typically when shops and garages within the housing revenue account were built, they were used by housing tenants only. With the introduction of the right to buy legislation this is no longer the case and those assets are generally used by the wider population rather than just housing tenants. The law therefore allows for a proportion of the income to be appropriated the general fund (or the assets more generally).
- Use of HRA stock for homelessness with service charge – for stock holding authorities, the HRA stock can be used for temporary accommodation purposes, backed by the introduction of a homelessness service charge which is claimable through Housing Benefit. This has the advantage of keeping money within the Council rather than paying out for private sector accommodation which falls on the General Fund.
- Introduction of new repairs management functions/system (HRA) – an efficient repairs allocation and workforce monitoring system can ensure that operatives are carrying out the right jobs, in the right amount of time, and with the right supplies, reducing down-time, wastage and customer satisfaction levels, but ultimately delivering cost savings for the HRA.
- The movement of HRA properties to formula rents upon re-letting to maximize rental income from those properties.

4.3 Decision Making

Risk Control

It appeared to the peer team that the councils were properly considering most risks, and their corporate risk register/service risk registers were all in place. As stated earlier in this report the peer team consider that this was not fully translating into financial provision to mitigate those risks.

Strategic Finance Board

The Strategic Finance Board (SFB) advises and monitors the Strategic Property Investment Programme. Chaired by the Chief Executive, it plays an integral role in this Property Investment and Regeneration schemes.

The councils have only recently decided to invest in commercial property through direct purchase or development over the next five years. This lags behind the pace of many other councils although the £150m programme between the two councils seeks to work at significant pace in investing in commercial property. The councils are aware of Government concerns over council borrowing to invest in areas outside of their boundaries and this needs to form a major part of their scenario planning for the future.

The MTFS up to 2023/24 projects net income from this programme as £905k for Adur Council and £850k at Worthing. So far both councils have purchased two properties each with anticipated net annual income of £308k and £294k respectively. The councils are mitigating for the risk of finding suitable properties and for void periods and re-letting costs and have set up a specific reserve to cover this. Caution is necessary however. For example, if the councils achieve circa £10m per annum coming in from property acquisitions, that is a significant gross income stream relative to their net revenue budgets. And with risks such as Brexit on the horizon, changes such as a 10 per cent reduction in rental income could place significant pressure on their working balances.

The peer team found the framework in relation to decisions about whole life costing to property acquisition to be detailed. This ensured that appropriate expertise was obtained by external consultants in terms of liabilities and this advised the council's investment decisions. It will be important for the councils to ensure that sufficient planned maintenance with supporting budgets is provided for the acquisitions of land or buildings. This is doubly important as the councils recognise significant historic weaknesses in maintenance and long-term financial provision to maintain its asset base. This is currently being rectified through more detailed examination of the requirements for adequately maintaining the council's asset base through a programme of condition surveys and better capital programme planning. The councils recognise the need for a full strategic asset review to repair, sell or repurpose and the SFB is commissioning consultant support to begin that review.

Many councils set out 10-year asset maintenance plans looking at the repair and improvement of buildings, car parks, playgrounds, vehicle replacements etc. Clearly this brings with it the need to set aside adequate sums to meet the maintenance specification or replacement of plant/vehicles. Given the tightness of the current budgets and the financial gaps for 2020/21 and beyond the challenge will be to set aside adequate monies to cover these costs.

Financial Procedure Rules

Given the ambition of the councils to act in an entrepreneurial manner the peer team question whether the Financial Procedure Rules (FPR) are proportionate to the risks and whether these require review. In relation to commercial property investments there is significant level of delegated responsibility to officers to decide acquisitions in consultation with Executive members up to the agreed £150 million of investment.

However, this is at odds with certain requirements under the FPR where certain expenditure of £20k is subject to significant compliance requirements backed by 62 pages of guidance and requiring full Council approval for many items of expenditure such as the use of section 106 monies. This suggests a review of the FPR would potentially benefit the

larger number of smaller spends, and align the councils FPRs with the innovative and entrepreneurial style that is being implemented in relation to delivery of services.

Comprehensive Examination of Financial Options

The peer team's analysis of current strategies and discussions suggests that there were wider opportunities to explore in relation to savings and income. The peer team discussed a number of these with you while on site in the spirit of 'action learning' and peer support. It is suggested that the councils review whether they have comprehensively examined all realistic strategic financial management options in an integrated manner. Some recommendations for areas of examination are provided in different areas of our report but other examples include:

- Corporate Inflation Provision - rather than applying inflation to individual budget lines, can instead be calculated and applied to a corporate budget line (being transferred as necessary where inflationary pressures require). As local government is not typically affected by the same inflationary pressures as households any unspent corporate inflation budget can be released as savings.
- Adoption of a vacancy savings allowance to take account of historical salary savings at the start of the year rather than delivery of these at the end of year in the form of a budget underspend.
- Review of Council Tax Support Schemes - with only one council requiring those of working age to make a contribution to their council tax where they are eligible for Council Tax Support the opportunity presents itself to impose this across both Councils and/or to increase the amount that working age claimants pay towards their Council Tax. At a circa 15 per cent contribution, Adur's policy is one of the more generous schemes in place, and experience elsewhere shows that the "tipping point" where contributions received are outweighed by the impact on debt collection, is around 25 per cent. Nationally councils are now considering ways to simplify their schemes and this could provide an opportunity for efficiency as administration grants reduce.
- Consideration of Single Loans Pool – authorities can either operate a single-loans pool – where debt costs of borrowing are treated corporately and applied to both the General Fund and HRA in accordance with the underlying need for borrowing on those two accounts through the Capital Financing Requirement (but not the actual need for borrowing) – or multiple debt pools, where the authority accounts for General Fund debt costs on the General Fund, and HRA debt costs on the HRA. Depending upon the financial sustainability of the two funds, and historical uses of the debt, an authority could therefore switch between the two models.
- Extraction of Social Value Act from contractors – contractors are now legally required to demonstrate how their contract is providing social value to the local area. Some authorities are using this to extract sponsorship contributions from contractors to enable community events to proceed that would otherwise have to cease as a result of austerity measures.

- Retaining court costs post liability stage – during the visit it was observed that court costs for non-payment of Council Tax are often waived if residents enter into a payment plan for clearing their debts. Modelling would have to be carried out, but where costs are not waived in other authorities, this has not led to a significant decrease in collection rates for Council Tax.
- Investment (LT) of cash-flow balances into property/funds – by analysing the long-term cash flow position of the authority over a period of ten years, longer-term investment decisions can be taken in relation to that cash. Without a long-term cash-flow model, investments will be limited to 3-6 months typically, with returns of around 0.7 per cent, whereas longer term investments (3-5 years) can yield around 4 per cent per annum from the same cash balances, thereby helping to reduce pressure on service cuts.
- Root and branch review of all service areas – by carrying out a review of all Council services, the authority will be able to determine the degree to which services are being provided discretionarily or statutorily, and how that service is performing relative to its comparators (such as in terms of performance and cost per head of population). This can enable a more targeted approach to be taken to the delivery of savings, as opposed to salami-slicing of all services, and ensure that services delivered are commensurate with the demand in any given area.

4.4 Financial Outcomes

General

The strategic aim of both council's current financial strategy is clearly set out in the joint budget strategy. This aim is to ensure that they would be community funded by 2020 with no continuing reliance on Revenue Support Grant from Government. Funds to run the councils would come from trading and commercial activities, council tax income and business rate income.

The councils have successfully delivered on budget savings to date. The savings strategy comprises of three strands:

- investing in property;
- commercialisation of services; and
- redesign of digitalisation of services.

In support of achieving the aim of community funding, the councils have set up several strategic programmes to deliver savings. These include programmes including Major Projects leading on regeneration and housing and Service Redesign leading on the Digital Strategy. Other larger programmes include Strategic Asset Management delivering income growth utilising the £150m Strategic Property Fund and Commercial examining income growth.

Service Redesign (Digital)

The Digital Programme (aimed at the councils designing and building their own digital products) successfully achieved annual savings in the region of £190k between 2016/17 and 2018/19 against a target of £200k. This is a significant achievement and the councils'

expertise and innovation in this area is widely known and a major success story. The financial plans are for similar annual savings up to 2023/24.

Commercialisation

Income has exceeded target since this programme started in 2016/17. Between 2016/17 and 2018/19 income grew by £2.3m significantly beating the target of £1.8m. The focus has largely been on generating fees and charges for services currently delivered for example planning and building control and garden waste. The councils have strengthened their capacity in this area through the appointment of a Business Development Manager and the councils are becoming more clearly focused on increasing income through improved marketing of their own services.

To date the councils have not set up a Local Authority Trading Company which is a potential area to explore given the emphasis on regeneration in P4OP and the need to build more homes, especially in Worthing.

To assist in building the capacity and skills of the two councils there would be benefit in building a stronger financial management culture throughout the organisation, including commercial skills development.

Regeneration

The councils can clearly point to the use of their capital finances and levered grant aid in support of P4OP activities such as 'investment in and delivery of Major Projects and key infrastructure'. Associated capital projects supported by Council finance include Adur Civic Centre redevelopment, Colonnade House (digital and creative hub) and the Grafton and Union Place sites in Worthing town centre. As part of support to the digital and creative economy in the area the councils are working with the County Council in the laying down of gigabit infrastructure.

Work is underway on a new Adur Council funded office block in Shoreham which will see over 250 jobs retained in the area with the prospect of more to come. The £9.5m redevelopment owned by the council will be then leased to the private sector. A joint venture scheme with a major private sector company to deliver a mixed use (residential/ commercial/ food and drinks offer) at Worthing demonstrates a different approach to prudential borrowing. The peer team discussed with the councils whether they have taken opportunities to consider all relevant methods of financing ambitions, for example using head leases and partnership work to avoid paying with cash. Examining all relevant ways of growing the area without direct income would be beneficial given the councils' financial position.

Managing Underspends

One particular area of concern that the councils are aware of includes the monitoring of spend. In 2017/18 Worthing underspent by £813k or 6 per cent of its budget. In the same period Adur underspent by £504k, or 5.5 per cent of its budget.

However, it should be noted that a significant proportion of these underspends was driven by technical issues such as changes to capitalisation debt financing, rather than an underlying trend in service underspending, albeit, that did play a part. Members expressed particular concerns about this. Given the knock in confidence that this generated in

financial management processes at the councils it will be important for them to clearly understand how they can learn from this and what early warning systems are put in place. It is important therefore for the councils to more proactively manage in year budget performance to take corrective action where necessary based on emerging trends

Longer-term strategic financial planning – moving away from a “hand-to-mouth” approach to budget balancing would help to alleviate pressures caused by such underspending, regardless of its origin, as such underspends can be used to build reserves that provide a further cushion against financial challenges in the years ahead.

Homelessness

A key budgetary pressure is the increase in demand for emergency and temporary accommodation. This is due to significantly larger number of people, especially single people, presenting as homeless. The area does not benefit from truly affordable homes and the councils had previously been slow to develop comprehensive approaches across the sectors focusing on prevention. This is now being strategically tackled by a partnership including the voluntary sector, led by the councils, which is a major improvement. Examples of council involvement include buying up properties to provide emergency and temporary accommodation and working with landlords to prevent homelessness occurring in the first place. This improved focus and investment on joining up a preventative approach is cutting through silos and decreasing costs.

Performance Management and Post Implementation Reviews

Strategically, the P4OP provides a six monthly largely narrative review of performance against the 146 projects. The peer team did not detect a strong corporate performance management culture that linked financial and performance data together with a strong focus on benchmarking against similar district councils. It is felt that such a suite of indicators would not only enable the authorities to quickly identify areas of concern/pressure at a time of limited financial resources – most recently demonstrated by increased demand for homelessness services – but could also sit side-by-side with the councils’ budget strategy. In this way it could more easily and quickly identifying services that are costing more or less than nearest neighbour comparators – thereby creating an opportunity for a more targeted approach to where future savings should be generated rather than a salami-slicing approach. Ultimately, this would enable the organisations to have a greater understanding of their value for money relative to their comparators.

The peer team would also encourage a stronger focus on post implementation reviews so that benefits and lessons learned can be shared across the two councils

4.5 Partnership & Innovation

Service Redesign (Digital)

The councils have significantly improved the way they interact with citizens and have become far more digitally focused in the way services are provided. The results achieved from adopting new, self-built digital technologies saw the councils win a national innovation award for 2015. This cutting-edge development frees up resources.

The Digital Programme (aimed at the council designing and building its own digital products) successfully achieved annual savings in the region of £190k between 2016/17 and 2018/19 against a target of £200k. This is a significant achievement and the council 1s

expertise and innovation in this area is widely known and a major success story. The financial plans are for similar annual savings up to 2023/24.

Partnership Funding

The councils have been very successful in leveraging money in via the Local Enterprise Partnership. This has led to the part funding of four projects including the demolition of Teville Gate car park and adjoining buildings to prepare for alternative redevelopment.

The councils have successfully led the Gigabit West Sussex project that has secured £4.66m investment from the Department for Digital, Cultural, Media and Sport's Local Full Fibre Network. This project will enable the provision of high-speed broadband in the area with the next generation of fibre cables.

The peer team discussed the success that Weymouth and other similar sized coastal towns were having through improved engagement with their local MPs and through them better access to speak to Government departments and partner agencies. One specific opportunity is to enhance opportunities to fund P4OP projects through the Coastal and Communities Fund which has supported improvements in coastal areas such as Weymouth.

Contract and Procurement

The councils have reacted to recognised weaknesses that it was aware of in relation to procurement and contract management. In order to increasing procurement and contract management expertise and resilience it has entered into the Orbis shared services partnership between Brighton and Hove City Council, East Sussex County Council, and Surrey County Council. Joining Orbis is providing the council with additional expertise, resilience and opportunities.

County Partners

There appeared to be the opportunity for stronger joint working with West Sussex County Council in relation to avoiding cost shunting and working more closely on areas such as supporting vulnerable young people and their housing needs and waste. It appeared that the County may unilaterally withdraw significant levels of funding in these areas without significant engagement or long-term planning. This would place a greater cost burden on the councils along with potentially poorer outcomes.

The peer team did not have chance to discuss in detail the broader corporate issues of the strength of county/district relationships and the structures for engagement and partnership working. However there appears to be scope for improving dialogue with the County. Examples of districts who have worked more collaboratively with their counties include Gloucester and Gloucestershire and Mendip and Somerset.

Some authorities have entered into negotiations with their County Councils regarding sharing in the savings that are made from delivering waste and recycling materials to the Waste Transfer Centres in the ideal format for the County Council to deal with. This can lead to the most efficient waste collection and disposal model for the local taxpayer generally, and incentivises the District Council to increase recycling as they share in the returns from that resource stream, with the County Council benefitting as well.

Theatre and Museum Models

The councils were not in the first wave of those whose leisure and cultural offers were encouraged to go down the Trust model. South Downs Leisure commenced delivery of sport and leisure facilities in Worthing in 2015 with services performing well. Worthing is now exploring potential delivery models for theatre and museum provision. The peer team would encourage the councils to continue along this path that has proved very successful in other areas. Careful consideration should however be given to the true taxation benefits of such models to ensure that business rates savings are not eroded through movement away from the less beneficial VAT and taxation arrangements that exist for certain models of operation.

One area of review suggested for the Worthing theatre is to review the venue's offer. One way to save money is to be clear about what the offer is from the theatre – for example, converting the hall to a private hire venue will mean that acts pay a hire fee for the facility and take the risk on ticket sales rather than the local authority. Typically, this can result in a lower quality of act (as some of the larger acts require a subsidy in order to perform at some of the smaller theatres), but these can be budget limited to a handful each year as a means of increasing the patron database.

Audit

Given the peer team's findings after three days work, it was surprising that strategic finances and risk control were not stronger features in the internal and external audit plans and findings. However, reference to an increased focus in the forthcoming year by the councils' external auditor were made during conversations with the audit lead. In order to increase the focus and support of Internal Audit (IA) on improving financial standing the peer team suggest that CLT are more involved in shaping the IA plan to make sure that it truly captures the initiatives and risks that are being implemented across the two councils. This would help IA obtain a good grasp of existing opportunities and threats and future challenges.

Organisational Development and Training

The councils recognise that in order to fully develop into the innovative and enabling organisations they aspire to, that more focus needs to be placed on developing new skill sets in areas including partnering, financial management and commercialisation. Financial business partnering is a relatively new approach within the Councils and greater clarity around the respective roles of finance and budget managers along with focused training would help to embed this.

5. Next steps

We appreciate the Councils will want to reflect on these findings and suggestions with the senior managerial and political leadership.

As part of the peer review/challenge process, there is an offer of further support. The Local Government Association (LGA) is well placed to provide additional support, advice and guidance on a number of the areas for development and improvement. We would be happy to discuss this. William Brooks, Principal Adviser is the main contact between your

authority and the LGA. His contact details are: Tel. 07949054421 and Email William.Brooks@local.gov.uk

In the meantime, we are keen to continue the relationship we have formed with the Council throughout the peer challenge. We will endeavour to provide additional information and signposting about the issues we have raised in this report to help inform ongoing consideration.

Draft