

Spelthorne Borough Council

LGA Bespoke Remote Peer
Support

Feedback Report

January 2021



Introduction

Spelthorne Borough Council is a district council in Surrey with a population of 99,000 and a net revenue budget of circa £22m. In late 2019 the council requested that the LGA undertake a finance peer challenge in early 2020. A peer team of experts including serving peer officers and a council leader was assembled and planned to deliver the peer challenge in June 2020. This was postponed due to the impact of COVID-19. In July 2020 there was a change of leadership in the council with the election of Cllr John Boughtflower and a shift in the political control to No Overall Control.

When the COVID-19 pandemic emerged and lockdown began in March 2020, the LGA suspended the physical delivery of all peer challenge work including the core offer of a corporate or finance peer challenge. To continue to support councils during this unprecedented period, the LGA refocused their support and adopted a new remote approach, rooted in the principles of peer support and independent challenge for the sector by the sector.

This new approach does not replace the LGA Peer Challenge offer but is designed to be a sector led improvement tool to provide external challenge and recommendations for how a council can continuously improve.

This report summarises the peer team's findings and recommendations for the council to consider for the future. The LGA and the peer team would like to thank everyone involved in setting up the remote peer support from the council and their willingness to participate in this new model of delivering sector led improvement. Throughout this process the council has been well engaged in the process. Participants have been open and thoughtful and our feedback is based on what we have heard, seen and read.

The peer team

A team of peers was assembled from a wide range of councils and agreed with the council. The peer team for this remote peer support was:

- Nick Tustian, Chief Executive, Eastleigh BC
- Cllr Peter Fleming, Leader, Sevenoaks DC
- Mark Green, Director of Finance & Business Improvement, Maidstone BC
- Helen Seechurn, LGA Financial Improvement and Sustainability Adviser
- Larissa Reed, Executive Director Neighbourhoods and Environment, Southend-on-Sea BC
- Chris Brook, Director of Place and Enterprise, South Hams DC and West Devon BC
- LGA Peer Challenge Manager – Clare Hudson
- LGA Remote Peer Support – Siobhan Coughlan

The process

Background reading was provided to the peer team in advance. This included a wide range of financial plans, budget reports, financial models and other documents that would allow the peer team to have an understanding of the council's approach to its financial strategy and management. The council drew up a timetable of virtual meetings including focus groups and one to one meetings. This included internal staff, councillors, partners, external audit and other key stakeholders. We have assimilated the evidence we have gathered within five broad themes and recommendations. The council specifically requested peer feedback on its housing and asset management approaches alongside the five themes of finance peer

challenge as set out below. Housing and asset management observations are incorporated within the section on Partnership and Innovation.

The five themes of finance peer challenge are:

- Financial strategy, planning and forecasting
- Decision-making
- Financial culture
- Financial outcomes
- Partnership and innovation

The peer team spent two days undertaking virtual interviews and focus groups and a further day discussing their findings and developing recommendations. Feedback was provided to the council in a remote meeting several days after the interviews ended to allow time for reflection and drafting of findings. The peer team spent around 300 hours developing its findings and this report which equates to one person spending around 40 days in Spelthorne Borough Council (BC).

1. Headline Findings and Key Recommendations

The council has shown a strong response to the COVID-19 pandemic including recruiting almost 1,000 community volunteers as well as undertaking over 22,000 welfare calls to residents through its community helpline. The council is rightly proud of this and the response appears to be valued by partners and the community. The council continues its response phase whilst also developing plans for promoting economic recovery and community resilience.

Spelthorne Borough Council has focused on building financial sustainability through undertaking an extensive programme of commercial investment. The council now has a £1 billion investment portfolio of mainly office buildings located near major transport hubs within its economic sub-region. This portfolio generates a significant surplus to the council after contributions to a sinking fund. The contribution to the council's revenue budget is around £10m per annum. The council plans to use this to further its regeneration ambitions including providing more affordable housing.

This commercial approach has been implemented by the council through building the skills and capacity to support this activity, including bringing in external expertise and developing its own capacity.

It is important to note that at the time of writing there are still unresolved external audit matters. The peer team encourage the council to recognise the potential impact on organisational capacity, morale and future financial health if these remains unresolved into 2021. The peer team provide reflections on the five core themes of finance peer challenge and it is not within the remit of this peer support process to reflect on these external audit matters, nor on the council's individual investment decisions.

The peer team propose that the council to take this opportunity to:

Ensure that there is alignment of key strategies and priorities and that they are supported by a clear and sustainable financial strategy

The council may need to: pause – reflect - realign

This should include:

1. Be clear on your priorities, articulate what non-prioritisation means and how resources are aligned within the finite capacity of the organisation.
2. Understand and manage risk and its impact on future financial performance and sustainability.

The tools for this will be a new corporate plan that aligns commercial, affordable housing, climate action and financial planning. This should be married with a refreshed MTFS including detailed scenario planning. The peer team recognise that progress on this is already underway.

3. Improve capital programme scheme implementation performance and be satisfied that delivery vehicles can successfully realise the scale of ambition.
4. Ensure that effective programme and project management is embedded across the organisation for both capital and revenue spend reflecting internal controls and proportionate risk management.
5. To continue to promote openness and transparency by ensuring decisions are taken at the most appropriate level in accordance with a practical and proportionate scheme of delegation

2. The Here and Now

“We never seem to stop doing anything – we just keep wanting to do more”

The council’s COVID-19 response and recovery plans represent a new phase for the council and its relationship with its economy and community. This will be an opportunity for the new political leadership to clarify its priorities and put in place resources and actions to deliver them. The new leadership is also cognizant of the impact of the pandemic on organisational resilience and capacity and will need to closely monitor this and its impact on the council’s capacity as it transitions between response and recovery.

The pressures of COVID-19 have inevitably resulted in increased costs for the provision of some additional services. The council is also facing reduced income from fees and charges and like all councils, uncertainty over future income from council tax and business rates as well as commercial income. The S151 officer estimates that the council is facing a budget gap of approximately £2m or 9% of the revenue budget in 2021-22 at the time of the remote peer support. This challenging financial climate will require the council to agree what their options are for managing this, including the delivery of a savings programme and associated transformation in the coming years. This presents a cultural shift in the revenue budget approach and will need rigorous project and programme management and openness and transparency in reporting and decision-making.

3. Financial strategy, planning and forecasting

“There is a sense that because we have assets and investments, we can do anything”

New political priorities are emerging and being shaped by the new Cabinet. There is an expressed desire to ensure that transparency, openness and risk management are at the heart of decision-making. Alongside this the Cabinet are placing greater focus on Recovery, Affordable Housing, and action on Climate Change. These emerging priorities are all set against the context of economic uncertainty. In responding to these the council will have to ensure that budget setting processes are robust and frequently tested across all areas of spend as the financial challenges of COVID-19 take impact.

The council is confident in its financial forecasting for its revenue budget and there is also confidence that service areas can identify and deliver savings that may be required. However, it was not always clear to the peer team what evidence the council is using as its evidence base for growth or savings. Business case development and usage and wide programme and project management will need to be embedded across *all* service areas. Programme management should reflect the risks the council is exposed to as well as how those risks are managed.

Financial reporting outlines the council's current approach and is being updated to reflect new priorities and the need for action to meet the emerging budget gap. As this develops the council could more simply set out what options it faces. This is an opportunity to model different scenarios ranging from the very optimistic to the extreme worst and openly consider the impacts of these on financial sustainability. This will result in a more consistent consideration of the medium-term budget options for the capital and revenue budgets. The council should continue to regularly refresh its MTFs to make sure it is a live and relevant document that sits at the heart of decision-making.

Recommendations:

- Recognise and articulate the challenges ahead for both capital and revenue in the present day and medium to longer term
- Continue to recognise the importance of the investment and commercial income stream to the revenue budget in reporting
- Consider simplifying financial reporting to members to make it clearer what options the council faces. Within this, model different scenarios and openly consider the impacts of these on financial sustainability
- Extend scenario planning for the refreshed Medium-Term Financial Strategy (MTFS) scenarios beyond the existing worst-case approach which is modelled for the sinking fund reserve

4. Decision-making

“The Cabinet has an aspiration to make finances more open and transparent”

Spelthorne BC is now No Overall Control and is adjusting to the new political balance alongside the new leadership’s desire for greater openness in decision making. The council must recognise that achieving consensus within this political balance will require concerted effort by both members and officers.

The council is proud of the way that it has ‘stepped in’ to provide services that are outside of the statutory remit of a district council and cites its commercial income as one of the key enablers for this. These include services such as street lighting and highway verge maintenance. However, it was not always clear to the peer team how decisions to ‘step in’ and directly provide non-statutory services are guided by robust assessments of need and expected outcome and how they fit into already agreed strategies.

Councillors undertake a wide range of community engagement, often rooted in residents’ associations. The council values its ‘grassroots’ approach to community engagement. Currently a distinct community engagement strategy is not in place to guide this. Equally, partner engagement is undertaken but for both these key stakeholder groups it is not clear how this engagement influences decision-making and financial planning. Overall stakeholder engagement feels like an area that could benefit from a more strategic overview and to be more clearly reflected in decision-making proposals. This could also provide the opportunity for the council to consider how members can continue to undertake regular community engagement and ensure they have the skills to do this.

The council manages a large long-term investment portfolio. It operates a revenue budget which is larger than average for a district council of this size and it has a £142m capital programme in 2020-21. These all require robust risk management and clarity around responsibility for this. The foundations of robust risk management are cited by the council and aspired to. The council has provided training opportunities for Audit Committee and Overview and Scrutiny Committee members. Corporate risk management policies have been recently updated. The council acknowledges that its approach to risk management is ‘evolving’ and needs constant corporate focus to ensure it matures sufficiently to support the risks the council must actively manage.

The Audit Committee leadership is clear about the expectations of the Committee on the council and is committed to working with senior members and officers to help the council improve its internal controls and programme management. The council is committed to continuing the momentum on enhancing risk management and equipping members to lead this.

There are also ambitions to enhance scrutiny of financial planning. In November 2020 the Overview and Scrutiny Committees considered the emerging budget plans and planned refresh of the Medium Term Financial Strategy. This committed to opportunities for the issue to be considered further, within the timeframe for adoption at Full Council in early 2021.

Recommendations:

- Ensure you have clear strategies on the core elements of financial planning and bring them together – Reserves Strategy, (including Sinking Fund), Commercial Strategy, Housing Strategy.
- Work collaboratively within a culture of cooperative working between members and officers to continually refresh the MTFS
- Consider bringing an independent voice to the Audit Committee to strengthen overall audit resilience
- Ensure outcomes of budget consultations and engagement with stakeholders are clearly reported to members as part of the budget setting process
- Continue to explore further opportunities for Scrutiny Committees to be engaged in strategy development and financial decision-making and review
- Consider how to ensure that co-ordination of risk management activity throughout the organisation is appropriately embedded and resourced with a strong corporate overview
- Ensure that the council's compliance with the statutory duty to consult representatives of nondomestic ratepayers – section 65 LGFA 1992 is clearly communicated and the results of this are seen to clearly influence decision-making.

5. Financial Culture

“Risk management needs to be more dynamic’

This is a council that is focused on ensuring finance is given a very high level of visibility. The long serving Section 151 officer is trusted by members and officers and is valued for his responsiveness. The finance function has had to respond to significantly changing demands as the council has widened its investment and commercial activities. The council has recognised that the expectations of the function have changed and there are steps in place to strengthen it. The function is engaged with service areas who understand their budgets. Officers will need to ensure this continues and deepens as the council considers a programme of savings to meet its emerging budget gap.

The council clearly values the ability it has to take on new activities and services and views the commercial income it receives as a key enabler for this. This can come across as a tendency to assume that the council is the natural, and best, provider of services to the community. The justification for the council doing this is not always clear and leads the peer team to question whether the council routinely questions what its role is within the community and economy and how it can be an enabler as well as a provider. The council is planning to update its Corporate Plan and this will be an important moment for the council to consider what the priorities for residents are and how the council can deliver on them.

Continuous improvement is seen as an organisational norm. Internal audit is recognised as a vital function to help drive improvement. This is manifested in the current finance process mapping exercise that is intended to allow better integration of satellite systems with the core financial systems. Financial reporting is now clearer about the contribution of the council's commercial income towards revenue expenditure. However, financial reporting could be simplified to allow members to more clearly see what the actual cost of services are and what their options are.

The council operates suitable practice by adopting a shared approach to financial risk, with key systems owned and devolved appropriately (such as rent collection). However, this requires close operational working with the finance team to ensure prompt reporting with system controls to maintain data integrity thereby providing a single version of the truth. There may be opportunities to review current working practices to improve the integration and efficacy of these arrangements.

Recommendations:

- Continue to keep the capacity and skills of the finance function under review, and ensure it is fit for purpose.
- Continue to regularly review the resourcing of Internal Audit to ensure it is appropriately resourced to reflect the scale of risk the council is managing.
- Consider how to better integrate the key functions of the council to deliver financial sustainability and build a strong culture of shared risk management that encompasses assets, property, income, and service delivery.
- Explore how to maximise all opportunities for community and service improvements, such as more effective use of section 106 agreements.

6. Financial outcomes

“Our focus on building financial sustainability has allowed us to deliver beyond the usual”

The council has focused on enhancing its financial sustainability through investment and commercial income. Prior to the impact of the COVID-19 pandemic the council was confident it could agree a Medium-Term Financial Strategy (MTFS) for next three years that was balanced without the need for significant savings. This is no longer the case and the council is currently undertaking budget planning, including identifying potential savings options, to meet the gap and is planning to refresh its MTFS.

The council's capital programme slippage in 2019-20 is significant with only 33% of the planned expenditure spent. In particular, the whole scheme for Oast House of £76m slipped to 2020/21. This slippage is likely to extend in 2021-22 given the economic uncertainty. The underlying causes have been attributed to the impact of COVID-19, delays in decision making and planning consents along with the realistic alignment of the capital programme to project planning, programme management and delivery. There are plans in place to undertake a full review of the capital programme at Full Council in 2021 and this will be a valuable opportunity to clarify the capital programme strategy and delivery going forward.

At budget setting, the council's revenue budget statement brings together the financial position for services along with the revenue from investments. For reporting purposes, the cost of management of the investment portfolio is included within service provision. From 2021-22 there will be further impacts arising from the impact of COVID-19 on the council's finances.

Whilst detailed information on growth and savings is provided in appendices, it is not clear how each revenue block has been built up year on year to show clearly the underlying drivers of change on financial performance. The future forecast impact of each block should

be more clearly set out to members to aid understanding of its impact on the overall budget gap.

Recommendations:

- Consider how to engage staff and stakeholders in the refresh of the council's MTFS and promote a wide understanding of the council's future options.
- Have an open dialogue about the financial implications of the council's emerging priorities, including potential impacts on the council's borrowing.

7. Partnership and Innovation – Asset Management and Housing

“We want to be less about commercial, more about community”

The council is proud of the way in which it has sought new and different mechanisms to build financial sustainability. It is continuing to pursue diverse approaches and maximise the income from its large investment portfolio. These will be critical if the council is to deliver on its affordable housing ambitions. The re-use of the civic office space for affordable accommodation including the creation of 25 units in the West Wing of the civic centre is a recent example of this.

There are a variety of housing models available for the council to deliver its housing ambitions. As part of this, the council has established the wholly owned company Knowle Green Estates Ltd (KGE). Whilst the company made a small profit in 2018, it incurred losses of £126k in 2019 due to the change in valuation of investments as the company started to expand. The council should seek assurance they are content with the financial and governance arrangements for KGE and its future viability as it continues to scale up its operations.

The council's response to the COVID-19 pandemic has also demonstrated its ability to move swiftly to flex its offer, including helping over 1,000 households with support such as shopping and collecting medication. It has also paid out over £13m in grants to businesses and discretionary grants as well as worked with local businesses to provide support including setting up an incubator for small fledgling businesses in an industrial estate within the Borough.

As the council sharpens its delivery plans for its new priorities this is an opportunity for the council to review and assess how it can most effectively work with partners and communities to help shape and deliver its priorities. This could include greater collaboration with other councils; with local health systems; as well as working with the business community to build on the experiences of supporting business in the pandemic and collectively promoting economic recovery. Equally, the energy and commitment shown by the council and voluntary sector in 2020 could present further opportunities to support vulnerable residents and enhance community resilience.

Asset Management

The council's Key Performance Indicator Investment dashboard is regularly published and shows yields of over 5%. It operates a building by building approach to risk consideration

which demonstrates a granular level of monitoring in this area. To fund its investment portfolio the council has tended to borrow to invest in assets, preferring to pursue long term investments located next to key transport hubs and within the economic sub-region. The council's asset values currently remain just above borrowing levels, following a marginal reduction in the value of the portfolio. Moving forward the council is looking to pursue a more blended approach to financing investments seeking to use grants and capital receipts to finance spend.

The council's sinking fund has been set up to manage expected future capital costs, and downside risks to lost income and voids. The sinking fund is reviewed regularly including an appraisal of downside risk. The council's current view of its potential worst-case scenario demonstrates that there are sufficient funds to mitigate losses and the development of an extreme worst-case scenario should be added to extend scenario planning further. The council has applied a Minimum Revenue Provision (MRP) policy using the annuity method. This prudently includes the provision of MRP on investment properties.

Housing

The council is focused on delivering existing planned housing schemes, including affordable housing and private rented housing. The new leadership have emerging ambitions to widen this provision. The council adopted a new Housing Strategy in 2020 for the next five years. As delivery progresses the council should consider how this is linked to the council's wider Corporate Plan; MTFS; and other key strategies including the Commercial Strategy and Reserves Strategy. A core component of the Housing Strategy should be the council's policy on delivering affordable housing and how much precedence this will get.

The council is delivering small scale developments of affordable and sheltered housing in various parts of the borough. It was not clear to the peer team how these fit together within the council's regeneration ambitions and its wider vision for the borough. As its plans for housing delivery progress the council will need to have an open, honest conversation with itself and partners about the scale of investment the council is willing to fund, and the extent to which the council is able and/or prepared to subsidise affordable housing.

Recommendations:

- Consider what does a diverse mix of housing really mean for the borough? How will the council use both Private Rented Sector and Market Sale to meet local need and to deliver financial returns?
- Clarify how the council is going to deal with viability issues for both individual housing schemes and the performance of your housing company
- Consider what delivery models will be most appropriate and allow the council to deliver agreed ambitions, and whether existing models are fit for this purpose?

Immediate next steps

We appreciate the senior managerial and political leadership will want to reflect on the findings within this report in order to determine how the organisation wishes to take things forward. The council is already taking action on some of the recommendations above.

The LGA is already working with the council to support the refresh its corporate plan and support the new leadership. Going forward the LGA will work with you to support the implementation of the above recommendations including support for officers and members and signposting towards innovative practice.

Your Principal Adviser Mona Sehgal (Email: mona.sehgal@local.gov.uk) and her team have been providing ongoing support to the council and will be in contact to discuss assisting the council in its response to this peer challenge.

Clare Hudson
January 2021

On behalf of the peer team

- Nick Tustian, Chief Executive, Eastleigh BC
- Cllr Peter Fleming, Leader, Sevenoaks DC
- Mark Green, Director of Finance & Business Improvement, Maidstone BC
- Helen Seechurn, LGA Financial Improvement and Sustainability Adviser
- Larissa Reed, Executive Director Neighbourhoods and Environment, Southend-on-Sea BC
- Chris Brook, Director of Place and Enterprise, South Hams DC and West Devon BC
- LGA Peer Challenge Manager – Clare Hudson
- LGA Remote Peer Support – Siobhan Coughlan

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Annex I

Full Recommendations

1. Ensure that there is alignment of key strategies and priorities and that they are supported by a clear and sustainable financial strategy. The council may need to: pause – reflect – realign
2. Be clear on your priorities, articulate what non-prioritisation means and how resources are aligned within the finite capacity of the organisation.
3. Understand and manage risk and its impact on future financial performance and sustainability. (The tools for this will be a new corporate plan that aligns commercial, affordable housing, climate action and financial planning. This should be married with a refreshed MTFS including detailed scenario planning. The peer team recognise that progress on this is already underway.)
4. Improve capital programme scheme implementation performance and be satisfied that delivery vehicles can successfully realise the scale of ambition.
5. Ensure that effective programme and project management is embedded across the organisation for both capital and revenue spend reflecting internal controls and proportionate risk management.
6. To continue to promote openness and transparency by ensuring decisions are taken at the most appropriate level in accordance with a practical and proportionate scheme of delegation
7. Recognise and articulate the challenges ahead for both capital and revenue in the present day and medium to longer term.
8. Continue to recognise the importance of the investment and commercial income stream to the revenue budget in reporting.
9. Consider simplifying financial reporting to members to make it clearer what options the council faces. Within this, model different scenarios and openly consider the impacts of these on financial sustainability.
10. Extend scenario planning for the refreshed Medium-Term Financial Strategy (MTFS) scenarios beyond the existing worst-case approach which is modelled for the sinking fund reserve.
11. Ensure you have clear strategies on the core elements of financial planning and bring them together – Reserves Strategy, (including Sinking Fund), Commercial Strategy, Housing Strategy.
12. Work collaboratively within a culture of cooperative working between members and officers to continually refresh the MTFS.
13. Consider bringing an independent voice to the Audit Committee to strengthen overall audit resilience.

14. Ensure outcomes of budget consultations and engagement with stakeholders are clearly reported to members as part of the budget setting process.
15. Continue to explore further opportunities for Scrutiny Committees to be engaged in strategy development and financial decision-making and review.
16. Consider how to ensure that co-ordination of risk management activity throughout the organisation is appropriately embedded and resourced with a strong corporate overview.
17. Ensure that the council's compliance with the statutory duty to consult representatives of nondomestic ratepayers – section 65 LGFA 1992 is clearly communicated and the results of this are seen to clearly influence decision-making.
18. Continue to keep the capacity and skills of the finance function under review, and ensure it is fit for purpose.
19. Continue to regularly review the resourcing of Internal Audit to ensure it is appropriately resourced to reflect the scale of risk the council is managing.
20. Consider how to better integrate the key functions of the council to deliver financial sustainability and build a strong culture of shared risk management that encompasses assets, property, income, and service delivery.
21. Explore how to maximise all opportunities for community and service improvements, such as more effective use of section 106 agreements.
22. Consider how to engage staff and stakeholders in the refresh of the council's MTFS and promote a wide understanding of the council's future options.
23. Have an open dialogue about the financial implications of the council's emerging priorities, including potential impacts on the council's borrowing.
24. Consider what does a diverse mix of housing really mean for the borough? How will the council use both Private Rented Sector and Market Sale to meet local need and to deliver financial returns?
25. Clarify how the council is going to deal with viability issues for both individual housing schemes and the performance of your housing company.
26. Consider what delivery models will be most appropriate and allow the council to deliver agreed ambitions, and whether existing models are fit for this purpose?