

AGENDA ITEM NO 1(d)

EXECUTIVE 10 MARCH 2005

Subject:	Exit Strategies
Director/Head of Service:	Chief Executive
Decision Issues:	These matters are within the authority of the Executive
Decision:	Non-key
Ward:	All
Summary:	<i>This report summarises progress to date on the Exit Strategies Scrutiny Review and asks the Executive comment on the action to date and to endorse the amended action plan.</i>
To Recommend/ Resolve/Consider	To approve the revised action plan
Classification:	THIS REPORT IS OPEN TO THE PUBLIC

SUPPORTING INFORMATION

1.1 Introduction

The Overview and Scrutiny Committee approved the Exit Strategies review scope in August 2003. Cllr Seath chaired the review and the Lead Officer was Richard McCarthy. The report and action plan was completed in October and approved by the Overview and Scrutiny Committee on 12 November. Informal Executive then considered the report and action plan on the 26 November. Management Team also discussed them on the 27 November 2003.

On 4 December 2003 the Executive noted the resolution of the Overview and Scrutiny Committee and asked that a further report be made once officers had concluded discussions with Management Team.

Management Team asked the review Lead Officer to convene a project group of officers who would take the recommendations contained in the review action plan forward. This was to be done by testing them against existing procedures and referring the action plan to CIFT¹ (Corporate Investment and Funding Team) for comment.

¹ Corporate Investment and Funding Team is one of 5 sub-groups of Management Team. CIFT is responsible for the development and monitoring of the Capital Strategy programme assessing external funding and other investment opportunities and prioritising bids and expenditure to aid the councils decision making process for external funding and capital expenditure.

It was the view of the project team that some of the actions in the plan had or would be complemented by corporate developments and that an updated action plan should be produced that took account of these. This would then be re-assessed by Management Team and the Executive. Due to the timescale for the relevant corporate developments, it was not considered practical to submit a report to the February Executive as requested. The processes concerned are fundamental to the way the council prioritises funding and approves projects and initiatives.

1.2 Background

There was a recognition that the council needed to better understand the full budgetary and other implications of entering into partnerships and externally funded projects and should agree to the arrangements entered into. Checks need to be put in place to ensure that officers go through a process of approval before such commitments are entered into. However, in doing so it was important to avoid excessive bureaucracy that would discourage officers from applying for external funding and stifle innovation.

The process for constructing and obtaining approval for Exit Strategies should therefore be as straightforward and uncomplicated as possible, and acknowledge that calculated risk is an essential ingredient of some bids.

The original review panel took a view that whilst desirable in a forward looking organisation, the case for external funding must take more account of the 'hidden costs' involved in bidding. A more reasoned approach to external funding would 'optimise' (e.g. a more selective approach to funding and partnership opportunities) rather than 'maximise' (e.g. going for funds/entering partnerships simply because they are available) any funding opportunities.

The core of the review for the Members was to ensure that adequate checks were made before the council entered into any arrangements – an 'entrance strategy'. However, Members were also clear that the council's success in securing external funding and delivering outcomes through partnerships should not be compromised.

1.3 Implementing the review action plan

It is clear that external budgetary and political imperatives such as: council tax capping, the next round of CPA (which places a greater emphasis on partnership working to deliver key outcomes) and the 10 year vision for Local Government underline the need for an integrated approach when dealing with external partnership and funding opportunities. A more aggressive response to external funding will itself bring risks but it may be necessary if the council is to respond effectively to a diminishing central government grant. It should be noted however, that a substantial element of the external funding received does not affect existing expenditure liabilities but allows the council to moderate new or enhanced levels of activity.

This approach is expressed in the actions 2, 14, 15 and 16, where amendments have been proposed to ensure that the balance between ensuring the managers are held responsible for ensuring sound financial management are balanced with the need to ensure that good projects involving external funding are not delayed by excessive bureaucracy. Just as it is important for the council to be sure that large commitments have sufficient safeguards to prevent unexpected long-term liabilities from arising; it would be unreasonable for officers bidding for amounts of money

below £100K – the threshold for key decisions - to be discouraged from doing so because of disproportionate burden imposed by corporate approval systems.

The councils project management toolkit will be key in ensuring that all future projects are systematically appraised at the most appropriate level. Any changes arising from the revised review action plan will be used to amend the existing project guidance.

Any decisions relating to this issue will be conveyed to the Audit Commission, who have agreed that progress of the Exit Strategy review will be one of the projects that they will be keeping a watching brief over in the next year.

1.4 The revised action plan

- The updated review action plan is attached at Annex A
- A flowchart demonstrating the main approval routes is attached at Annex B
- The revised CIFT monitoring procedures are attached at Annex C

The guidance takes account of corporate developments: for example the revision of the project management toolkit; changes to assessment procedures, the re-launch of the CIFT process; and where existing procedures covered the proposed actions in the review, e.g. Financial Standing Orders and the revised service plan template.

The revised action plan hones down the review recommendations, by incorporating actions into existing procedures whilst ensuring sufficient delegation to Heads of Service where appropriate. Many of the review actions have been dealt with in this way. For example the revision of the project management toolkit has incorporated many elements of the review and subsequent actions. These are now ensuring corporate projects are sufficiently considered to cover the risks of any future resource commitments.

1.5 Conclusion

It is fair to say that the impact of the Exit Strategies review has been felt across the council. Financial standing orders will be revised as a direct result of the review and the need for an 'entrance strategy' has been recognised by Management Team, who will be enforcing the use of the project management methodology. Finally, because of the review, the pursuit of external funding has been brought into a mainstream corporate process.

2. Relevant Council Policy/Strategies/Budgetary Documents

Corporate Plan – Excellence in Services

Best Value Performance Plan – CPA Improvement Plan

Exit Strategies - scrutiny review

3. Consultation

Management Team and officers in Finance and Community Development were consulted as part of the original review and throughout the process of aligning the recommendation to the relevant corporate process.

Overview and Scrutiny Committee's views

Overview and Scrutiny committee approved the Exit Strategies final report on 12th November 2003. Subject to comments by the Executive, a progress paper will be referred to the Scrutiny Review and Management Sub-Committee.

4. **Options available with reasons for suitability or non-sustainability**

Since the review and action plan was submitted to the Executive officers have dealt with most of the actions set out in the review. Therefore Members are invited to:

Comment on the report and action plan and:

- Suggest further work and/or amendments

Or:

- Endorse the action plan and updated actions for referral to the Scrutiny Management and review Sub-Committee.

5. **Implications**

(a) Financial Implications

The effect of the review will be to strengthen the council's arrangements for financial monitoring and spending approval.

(b) Staffing/Resource Implications

Most of the actions will result in a more effective appraisal when using external funding to pay for staff. Also action 12 (establishment of a core team to provide support for funding bids) has been completed.

(c) Property Portfolio Implications

As with other services, the main implication will be the application of the Project Management methodology on a more widespread basis.

(d) Legal Implications

As with other services, the main benefit will be the application of the Project Management methodology on a more widespread basis.

(e) Environmental/Sustainability Implications

One of the primary purposes of the review and action plan was to make service delivery using external resources more sustainable.

(e) Planning Implications

None.

(g) Human Rights Issues (Legal)

None.

(h) Equalities

None.

(i) Crime and Disorder Implications

No immediate implications, although some of the officers recruited

6 **Conclusions (with reasons supporting the recommendation)**

Although the Exit Strategies review was concluded in late 2003, the breadth and impact of the recommendations meant that the action plan was delivered gradually over the past year. However, the overall effect will be to considerably strengthen the councils financial and project management.

Contact Officer: Dan Hamlin Direct Dial: 86-2059

Contact Officer: Ian Daborn Direct Dial: 86-2351

Overview and Scrutiny Committee

Exit Strategies

Report of the Scrutiny Review Panel

Chair Cllr Julia Seath

October 2003

Overview and Scrutiny Committee

Exit Strategies

Report of the Scrutiny Review Panel

Chair Cllr Julia Seath

1 Introduction

1.1 The Overview and Scrutiny Committee approved the Exit Strategies Scoping Report as a review topic on the 6 August 2003 as part of Phase 1 of the Council's scrutiny programme.

1.2 Scrutiny Review Members

Councillor Seath (Chairman)
Councillors Oakes, Oakey, Farthing and Miss Samper

The Officers were:

Richard McCarthy (Lead)
Ian Daborn, Dan Hamlin, Suzi Wakeham
Rosemary Burton (Committee Administrator)

2 Background

2.1 It is recognised that external funding arrangements make an important contribution to service delivery and the council has delivered many positive outcomes for local people using such funds. However, there had been concern amongst Members about a perceived lack of clarity and policy direction on what happens when partnerships entered into by the Council, or its associated organisations, conclude; and that there may be ongoing financial, staffing or liability implications that have not been considered or budgeted for.

2.2 When the opportunity to obtain external funding arises officers are often faced with a limited time in which to apply. This short notice built into some funding applications creates a tension between the needs of some parts of the organisation to maximise the amount of funding they obtain and the needs of others to ensure that the inherent risks in such an approach are minimised.

2.3 Consequently it was decided that there was a need to review past projects, assess the current ones and establish what exit strategies, if any, exist. To identify an overall picture of any on-going liabilities (staffing, budgetary or residual risks) that the Council would be responsible for as a result of the cessation (planned or enforced) of any partnerships, projects and programmes. Finally, to make recommendations that would help reduce the exposure of the Council to such unnecessary risks.

2.4 The review process studied voluntary external funding only and not that applied by statute, for example, the Benefits Verification Framework Grant.

3 Terms of Reference

3.1 The following Terms of Reference were set by the Panel:

- To review exit strategies for those partnerships and on-going projects currently relying on outside funding and to ensure that they make adequate provision for any on-going revenue implications or one-off exit costs.
- To review the risks involved with grants from the Council to outside organisations
- To make recommendations on a Council policy to fully assess future funding opportunities and to ensure adequate exit strategies are put in place.
- To provide Interim recommendations to inform and feed into the Star Chamber exercise in the autumn.
- To make recommendations on a Council policy for exit strategies, to include a regular reporting mechanism on progress/changes and a review process at project completion and develop an 'early warning system' for problems

4 Definitions

4.1 The following is a useful starting point for defining Exit Strategies and is a modified extract from:

**ODPM Running and sustaining renewal areas: good practice guide
Mapping Partnerships in Eleven Local Authorities**

“Action - Never start a project until it is clear how it is going to be finished or the future financial liabilities are to be transferred to an agreed stakeholder. All projects with financial, maintenance or staffing liabilities lasting beyond the life of the project must have a forward strategy and plans for transfer to another body.

There are a number of possible exit and forward strategies for projects discussed below.

Action - Exit strategies need to:

- *identify the finish point of the project (e.g. an agreed date, certain criteria the project must meet);*
- *identify what action is needed to finish the project (e.g. payment of last invoice, exchange of letters, agreed decision at meeting of partners);*
- *identify who is responsible for this action (champion, contract officer, partnership team, stakeholder forum, contractors);*
- *have in place a system for dealing with any outstanding issues relating to the project (e.g. a nominated contact point);*
- *identify any future monitoring of the outputs or outcome measures of the project (e.g. re-survey in three years);*

- *identify potential remedial action if monitoring shows results not sustaining”*

4.2 The Audit Commission defines a **partnership** as:

- *A joint working arrangement where the partners are:*
- *Otherwise independent bodies*
- *Agree to cooperate to achieve a common goal*
- *Create a new organisational structure or process to achieve this goal, separate from their own organisations*
- *Plan and implement a jointly agreed programme, often with joint staff or resources*
- *Share relevant information; and*
- *Pool risks and rewards*

5 Approach

5.1 Members recognised that the scope of the study could be extremely wide and might lose its focus. Rather than an in-depth analysis of all partnership funding projects they were keen to investigate possible problems and shortcomings inherent within the current procedures, identify recurring themes, address them and produce an action plan of recommendations to address their findings.

5.2 The Panel also recognised that interim recommendations might be required to feed into the ‘Star Chamber’ process being undertaken in the autumn. It was therefore decided to focus on current projects whilst using some previous ones as examples of good/bad practice. At the request of Management Team an internal audit of partnerships was concurrently being undertaken by the Policy Unit and Finance Department – this work formed an important element of the Review process. This information is contained in a supplement to this report and is available separately.

5.3 It was also decided that the requirement to provide an Exit Strategy should not be limited to partnership arrangements, but should include EU Funding, the giving of capital grants to outside bodies, one-off grants setting up of trusts (Active Life, Horsebridge, etc) and funding of partnering projects from within existing capital or revenue budgets. It is considered essential to ensure that all these can stand-alone and survive whether or not a Business Plan has been prepared and are not reliant on the Council being drawn in at some future date to underwrite the risk.

5.4 Grants to Outside Bodies, Kent Highways Partnership etc would not be subject to scrutiny by the panel but any conclusions or recommended actions arising from the review would be applied in the future to such areas of partnership working.

5.5 There will clearly be instances when the council will have to accept that if it wishes to obtain additional capital or revenue funding because of an external funding or partnership agreement, then future council revenue costs or other risks may ensue. If this is so the council must be left in no doubt what those

implications are and plan accordingly. The question “would the council have entered into this arrangement had it understood the ongoing implications that have now come to light?” is a question that should not need to be asked.

Recommendation 1 – All arrangements involving partnership agreements (utilising external and internal funding) must contain Exit Strategies to cover the planned or forced withdrawal from the agreement

Recommendation 2 - Business Plans (on larger projects) and formal Service Level Agreements should be included in all arrangements to clearly identify the costs and the responsibilities of each party, particularly at the conclusion of the project

6 Review Context

The main themes driving the Review are summarised below:

- 6.1 **Comprehensive Performance Assessment** – The Audit Commission inspectors complimented the council on the quality of its partnerships but highlighted concerns that some of these did not have effective exit strategies. Members agreed with the findings and, as highlighted above, recommended that the review examine this issue.
- 6.2 **Entry Strategies** – Members also considered that the council should look at ‘entry strategies’ (which they viewed to be of equal, if not greater, importance) and why projects are undertaken at all. Some partnerships, they felt, were entered into without sufficient knowledge of the real benefits and context to the Council (Corporate Plan links) and any liabilities - financial, staffing or otherwise - that may continue after the partnership is ended.
- 6.3 **Good practice, internal and external** - Members considered that the review should see if others were tackling this issue more effectively. To assist with this evidence was taken from the Head of the Kent County Council External Funding Unit.

7 Value of External Funding

- 7.1 The Council presently has a total income in 2003/04 for partnership funding of £1,405,000 that is related to schemes that require an Exit Strategy. This equates to 8% of the council’s net General Fund Budget. Over the next ten years this is likely to total nearly £11 million. Schedules detailing the funding relevant to this report are shown in Appendices 1, 1A and 1B.

8 Review Methodology

- 8.1 To enable members to understand the context and operation of the partnership bidding process and also the scale of the undertaking various reports were requested and presented to Members during the course of the meetings. The full list is shown in Appendix 2.

- 8.2 As mentioned in 6.3 above Members were keen to investigate how other authorities dealt with the problem and the Head of External Funding at Kent County Council kindly attended to present a paper.

9 Financial Regulations

- 9.1 The following extracts from Financial Regulations identify the main financial rules, which should be followed to protect the council's interests. These cover external funding bids as well as operational service issues ie using money from existing revenue or capital budgets. They give the framework within which all current funding arrangements **must** operate.

Financial Forecasting (reference 2.8)

- 9.2 The opinion of the Director of Finance shall be obtained upon any financial considerations before any agreement is entered into on behalf of the council, except where the agreement relates to a matter which falls solely within a Director's professional competence, e.g. Rent Reviews on Property leases, Artistes fees.

Financial Appraisals (reference 4.1 and 4.2)

- 9.3 A report by any officer which is likely to affect the council's finances or contains information relating to the council's financial position shall be supplied to the Director of Finance in time to enable him to report on the financial implications to the same meeting at which it is to be considered.
- 9.4 Bids for work for others or for partnerships involving the acquisition of assets by the council require a report by the appropriate Director and Director of Finance to the Executive prior to the date the bids are due for submission to enable the Executive to consider the effect on the council's capital and revenue budgets and recommend accordingly to Full Council regarding supplementary finance. All tenders, by in-house trading units, for contracts of over £5,000 in value with both the council and third parties, must be checked by the Director of Finance for financial prudence prior to submission.

External Funding (Reference 23.1 to 23.4)

- 9.5 External funding is potentially a very important source of income, but funding conditions need to be carefully monitored to ensure that they are compatible with the aims and objectives of the authority. Local authorities are increasingly encouraged to provide services through working closely with other agencies and private service providers. Funds from external agencies such as the National Lottery and the single regeneration budget provide additional resources to enable the authority to deliver services to the local community.
- 9.6 Funding should only be sought to meet the priorities approved in the Policy and Budget Framework approved by Full Council.
- 9.7 **Heads of Service shall ensure that:**
- Key conditions of funding and any statutory requirements are complied with
 - The responsibilities for the accountable body are clearly understood

- The project progresses in accordance with the agreed project plan and conditions
- All expenditure is properly incurred and accounted for
- All claims for funds are made by the due date
- Match funding requirements are given due consideration prior to entering into long term agreements
- Future revenue implications are included with the budget approved by Full Council.
- The Director of Finance shall ensure that all funding awarded by external bodies is received and properly recorded in the authority's accounts and that the audit requirements are complied with. *(As the DoF has representation on CIFT and if all applications were submitted to this group it would ensure a logical flow through the process)*

9.8 The recognition and management of risks and financial probity etc should also be addressed and highlighted within the various Service Plans that are produced. This links with the Corporate Governance Statement that is prepared, signed by the Heads of Service, Directors and ultimately the Chief Executive.

Recommendation 3 - A central, core team or person within the council should be informed of all bid submissions and approvals. (Financial and Office Services Department)

Recommendation 4 - The Corporate Finance or Financial Services divisions should continue to manage the arrangements whereby grant is applied correctly

Recommendation 5 – Financial regulations are amended to ensure that each partnership involving financial risk contains an exit strategy

10 'Hidden Costs'

10.1 Whenever a service area expands it will attract additional costs. By the very nature of local government and the operational culture of the council quite often these costs are offset by reductions in service provision elsewhere. However it must be recognised that sometimes hidden costs from a partnership or external funding application are incurred. These include:

- Bidding/application process
- Project Management – initial set up costs
- Legal Time – contract issues
- Finance Time – validation of grant claims/closing accounts/control accounts
- District Audit fees – checking claims

10.2 The above are sometimes not chargeable against the project and reflect in the council's revenue budget against the appropriate service. Due regard for this should be made at the entry stage. The council's project management methodology now in place should alleviate some of the issues raised during this review.

Recommendation 6 - ***Any bid should identify the in-house costs of making the application, the costs of all support/central costs in managing the project during its life span and those incurred in its conclusion ie lifetime costs should be clearly identified and transparent, as should any inherent risks***

11 Recommendations Regarding Financial Probity

Tiered approach to responding to funding opportunities

- 11.1 There is recognition that there are problems when officers are faced with funding opportunities that have short timescales. It is vital that there are checks to ensure that applications have suitable entry and exit strategies however, it is important that the processes for doing so do not lead to missed opportunities. Below are proposals to assist in this process.
- 11.2 Financial Regulations (in 9 above) set out the controls and requirements within which the Council and Officers must operate. However as an extension and clarification to Regulation 23.1 a more definitive process could be agreed as a policy principle. This process would build on existing systems and where possible seek to simplify the approval process whilst at the same time ensure the appropriate checks are in place.

Therefore, it is recommended that there is a tiered system for seeking approval in advance of application, which could be:

- 11.3 ***Pre-application assessment*** - All bids over £50,000 in total value to be appraised by CIFT before a formal application is made, although in some instances expression of interest are required and this process needs to be streamlined and avoid unnecessary layers of process and consequent delay.
- 11.4 ***Bids under £50,000*** - delegated authority: Head of Service & Finance Services Manager to confirm that liabilities are being met within existing devolved budgets and this would need to be signed off by the Finance Services Manager.

Where time does not allow for the full reporting process to be adhered to:

- 11.5 ***Bids £50,001 - £100,000*** – The appropriate Director to determine that the external funding bid or partnership arrangement complies with the Budget and Policy Framework and confirm that liabilities are being met within existing devolved budgets. This is to be agreed by the Financial Services Manager. The Director is to take the final decision, in consultation with the Portfolio Holder(s). Subsequently reporting to the Executive and, if necessary, Council.
- 11.6 ***Bids over £100,000*** - As above but request approval of the Executive
- 11.7 The bid value is to be determined by the higher of CCC budgets involved or value of grant to be received. This will avoid a disproportionately high contribution being made by the Council in terms of its match funding and help to focus on the *added value* element. There will always be exceptions to this principle but they must be clearly defined, transparent and agreed.

- 11.8 *Where time **does permit** - the full reporting process all bids over £100,000 to follow the process through the Executive unless outside the Policy and Budget framework where they will need approval by full Council*
- 11.9 A suggested procedural check-list is shown in Appendix 3

Recommendation 7 - *The amendments proposed under 11.3 to 11.8 above should be adopted.*

Recommendation 8 - *In financial terms the ultimate aim should be that when the budget strategy is produced or the annual review of the budget takes place there should be no surprises, other than legislative or totally unforeseen service issues.* (Problems should not just come to light when budget reviews take place.)

Recommendation 9 - *Any future year(s) additional costs resulting from partnership or external funding bids should be identified to the Council or Management Team at the outset. Departments will be required to identify how they will deal with such costs, including the possibility of terminating the project and with due regard to their current budget position.*

12 Audit of Partnership Arrangements

- 12.1 A key component of the Review was the audit of current partnership schemes. A pro-forma was sent to all Heads of Service for completion to establish the core information for the Audit (a copy is available as a supplement to this document). From this list (based on the information received by the various departments) projects that it was considered required Exit Strategies were abstracted and analysed and assessed to determine the quality of the Strategy (if one existed) and the need for possible remedial actions. This list is shown in Appendix 4.

Key Lessons and Conclusions from Audit

- 12.2 There are numerous examples of both categories but for the purposes of this report two unsuccessful and two successful examples have been chosen to illustrate what has caused the problem Members have highlighted or, conversely, have assessed the risk and ensured that future problems are avoided.
- 12.3 There is no evidence to suggest officers submitting bids for funding or entering into partnership arrangements have tried to deceive the council. Indeed the motives have usually been highly commendable and the action taken has been in line with corporate objectives and a recognition that added value will be given to the council services generally.
- 12.4 However, there is a need to balance corporate objectives and rules with the window of opportunity that is offered when an external funding or partnership arrangement matches service delivery needs and does not put the Council at risk by failing to identify on-going financial or staffing liabilities.

Factors governing unsuccessful exit strategies

- 12.5 Whilst the points below identify perceived weaknesses the benefits and advantages of the bidding process, what they achieve should not be overlooked. Over the next ten years the current indications are that external funding of projects will realise a sum in excess of £11 million and what should not be ignored is the significant contribution this makes to the Council achieving some of its corporate objectives.
- 12.6 However it is relevant to examine weaknesses in the process – but recognising that factors beyond the Council's control can seriously affect even a well considered bid, for example the Children's Fund had its allocation for Kent reduced this year from £300k to £90k, with no warning and when the infrastructure was already in place and operating the scheme. It does however reinforce the need for a contingency plan to be considered for such an eventuality.
- 12.7 It is evident when looking at examples of unsuccessful exit strategies quite often the problem arises because of a failure to incorporate proper consideration at the entry stage of all the factors involved before committing to the project or partnership. The reasons for the initial failings vary and include:
- a) The time available to submit an external funding bid is limited and there is pressure not to miss a window of opportunity in securing funding which matches corporate objectives.
 - b) Finance staff or CIFT/MT have not always been given the opportunity to examine the bid before it is submitted to ensure CCC match funding and ongoing financial implications are sound.
 - c) An assumption that the next budget strategy will sort out any financial shortfalls.
 - d) A lack of a clear report submission to councillors, which identifies the precise term of the project and what happens at the end of that period in terms of staffing, finance, service delivery and partners. The Council has therefore sometimes entered into arrangements unaware of the full implications.
 - e) A desire to **maximise** external funding rather than **optimise**.
 - f) Bidding can have its own momentum in some instances and this can lead to the desire for success for successes sake.

Recommendation 10 – ***One pre-project appraisal form (to include the proposed Partnership Check List) for all partnership funding applications should be developed for, and form part of the CIFT process and to include:***

- ***Positive weighting for Corporate Plan items etc***
- ***Positive weighting linked to demonstrable benefits***
- ***Negative weighting related to risk element and poor return***

Recommendation 11 – ***In Appendix 4 where Exit Strategies have been shown not to exist, or do not adequately address the problems (High and***

Medium Risks), a report detailing proposed remedial action, is to be taken to Management Team (within six weeks of the approval of this Review) by the relevant Head of Service/Lead Officer, for consideration, before deciding to refer the matter to Overview and Scrutiny Committee. These should explain how the problem has arisen and detail what remedies they intend applying to resolve the problems identified.

13 Recent Examples of unsuccessful and successful Exit Strategies

Unsuccessful Exit Strategies

Northgate Regeneration SRB

13.1 The £1.7 million programme has facilitated a high level of positive work with the community - making a tangible difference to life in Northgate Ward. However, there are a number of issues relating specifically to the exit strategy of this programme:

- The Programme established in 1999, with no core council officer support – the SRB co-ordinator post is entirely funded by SRB.
- No clear evidence that the council fully appreciated what it was entering into in contractual and financial terms.
- The co-ordinator has had to support the partnership and the projects, not least by working with the project leads on their individual exit strategies.
- Although our partners are not specifically looking to the Council to continue funding their projects at present, the ongoing success of regeneration/community development work in the area is reliant on ongoing officer support. Lack of this and advice on funding will undoubtedly lead to an increased demand on the voluntary sector grants budget, as our partners already know how to apply for these.
- Although the post is now within the Community Development Service, there are still no officers with a remit to continue the work with the community groups involved. At the end of the funding in 2005, this will mean a sudden cessation to the support and community work that has made the programme such a success.

13.2 It should, however be recognised that funding of schemes such as SRB takes place over a number of years and consequently the rules and circumstances that existed at the outset frequently change. This does require a degree of ‘second-guessing’ when the original bid is considered and does, with the benefit of hindsight, reinforce the importance of ‘worst case scenario’ planning as part of the entry strategy.

13.3 Dane John – Park Keeper

- Several years ago the council submitted a bid to the Heritage Lottery Fund for major restoration works to the Dane John Gardens. This bid came at a

time when the council would have been faced with a capital investment requirement to deal with safety issues regarding the mound and repair work to the paths and steps leading to the East Station bridge. The net cost to the council for the whole project was about £250,000, which was probably more than minimal repair work.

- A requirement of the bid was the employment of a Park Keeper. This was grant aided at 75% for a period of 5 years in advance by the Heritage Lottery. Although it was known funding would be for 5 years only, no specific arrangements were in place for dealing with this at the end of the grant-aided period.
- It is difficult to see what clear cut arrangements the council could have put in place other than a recognition that additional revenue funding would be required in later years, or that existing budgets were managed in such a way so as to reduce spending in other areas to make provision for this additional liability. However, the plan just appears to have been: *put a growth bid in when the funding expires*.
- However, the failure to plan for this additional expenditure of £15,000 should be put in the context of the overall scheme, what the Council's contribution levered in and the direct benefits to the management of the gardens.

Successful Exit Strategies:

13.4 Rural Youth Bus (new project)

- A three-year, time-limited project – working with volunteers from parish councils to set up new youth clubs in village/church halls. The project pays for additional sessions and the lease of a vehicle.
- The Rural CDO and youth workers develop the skills of the parish councils whilst working alongside them for the three years, enabling them to take over the running of the youth clubs by the end of this period. Because the vehicle is leased, it can be returned at the end of the funding.
- Ongoing support provided by the core-funded Rural CDO will maintain the links with, and support for, these youth clubs.

13.5 Northgate Healthy Living Programme

- A four-year, time-limited multi-agency initiative. Six partner agencies are delivering a range of preventive health projects in the Northgate Ward – funded by the New Opportunities Fund.
- The City Council is the accountable body and employs the Co-ordinator on behalf of the partnership and is also responsible for delivering the D'Arts (drama and arts) project.
- All partners within the programme are developing their individual forward strategies and are responsible for the mainstreaming of the services they deliver.

- The City Council-run D'Arts project works with voluntary sector groups to deliver drama and arts-based sessions on social issues, such as drugs, alcohol, self-esteem and so on. The Co-ordinator buys in appropriate providers to deliver each session and is working with our voluntary sector partners to give them the skills, knowledge and contacts to be able to attract funding and run similar sessions at the end of the NOF funding.

Successful Partnering generating unforeseen problems

Re-cycling Project

13.6 Sometimes unexpected success brings about its own problems by not identifying possible risks and remedies associated with this success:

- The Government set challenging standards for local authorities to achieve for recycling linked to grant incentives. For this Council the standards are 20% by 2003/04 and 30% by 2005/06.
- The Council agreed a system of a collection of clear sacks for recyclables, a garden waste collection utilising a wheelie bin (green lidded) and a residual waste collection also using a wheelie bin (grey lidded). This was to be implemented over 6 years and subject to additional funds to bring the scheme in.
- A downside of this roll-out arrangement was that it would have been difficult to achieve the Government standards and also the 'old' scheme utilised the green lidded bins for recyclables (now used for garden waste) and therefore many properties would have been 'left' with this bin un-used for some years until the full rollout of the scheme.
- A grant was obtained from the Government of £706,000 to be spent within the 2002/03 financial year to bring forward the recycling scheme. This funding was spent on the purchase of new bins, some collection vehicles, publicity and marketing to encourage the public to take part.
- Public resistance to the new scheme was considered to be the major obstacle to be overcome and the emphasis was placed on encouraging everyone to take part.
- In the event, despite an initial resistance, the public have responded much better than expected and have embraced the scheme wholeheartedly. The recycling figures for the whole of last year were 12% and during the first quarter of the 2003/04 financial year the council have achieved a recycling rate of over 30%. This has meant that more recyclables and garden waste are being collected and more vehicles have been engaged on this collection. More vehicles and collection operatives have been taken on which has incurred additional cost.
- From figures supplied by the Kent County Council this authority is recycling the most in Kent. The standard required of 20% recycling will be well exceeded for this financial year.'

- To overcome the problem a £200,000 underspend from 2002/03 has been rolled forward and a bid for additional funds for future years made to Star Chamber. The alternative was to reduce or cancel the scheme thereby saving money but failing to meet government targets and public expectation.

Recommendation 12 - ***If applicable, clear ongoing support needs to be available from core staffing when the funding has ended, the financing of such support needs to be clearly identified and available.***

Recommendation 13 - ***In the Community Development Service, the core team needs to be established to provide this support for all future bids*** (noted - the Star Chamber bid for the Neighbourhood Development Team. Until now, the Service has relied largely on externally funded posts to carry out this role).

Recommendation 14 - ***Staff employed in externally funded positions need to be made aware of the time-limited nature of the post at all stages of recruitment and in employment contracts.***

14 Kent County Council Approach

14.1 Mr Colin Maclean, Head of the Kent County Council's External Funding Unit, attended the meeting on 22 August 2003 and explained to the Panel that KCC operated a central core team which deals with external funding issues. The strategic aims are:

- To seek to continuously improve Kent's share of resources and funding to meet its needs.
- To align external funding resources with strategic aims through better planning and financial management.
- To optimise the external funding to better achieve the strategic objectives for Kent.
- To support and improve better joint partner strategies and planning on external funding.
- To identify appropriate performance measures and to monitor progress regularly.

14.2 The role of the unit is to:

- Provide the corporate lead on all UK funding sources and opportunities.
- Identify and disseminate information on relevant funding opportunities within the Council.
- Analyse and evaluate funding opportunities in relation to Kent and KCC's strategy and long term objectives, and to recommend appropriate bidding strategies.
- Provide specific advice to Directorate staff on project funding opportunities.
- Lead on the development of cross-Council and inter-agency bids and initiatives, as appropriate.
- Manage the corporate External Funding Intelligence Database and to collate and provide intelligence/analysis to Cabinet Members, Directors and lead staff.

- Develop and maintain high level relationships and contact with the representatives of principal UK agencies and organisations.
 - Develop and continuously improve relationships with key partners in respect of external funding.
 - Support and develop external and internal funding networks that focus on increasing funding leverage and improving capability, internally and externally, to develop successful relevant bids.
 - Identify quantitative and qualitative performance measures and to collate and compile corporate performance reports on external funding.
- 14.2 Before any bid is submitted it must have the approval of the Finance Director and Service Director. The External Funding team act as a 'clearing house' for external funding opportunities that can be linked to strategic priorities.
- 14.3 KCC have the clear requirement that external funding should be entered into only on an **optimise**, rather than, **maximise** basis. They do not chase every funding opportunity that exists, but concentrate on those where there are substantial financial benefits and the bid will fulfil the demands of specific corporate aims. They take the view that external funding/partnership arrangements provide *added value* to service provision that is a corporate priority, rather than entering into arrangements that are merely justified by general corporate 'themes'.
- 14.4 They recognise the importance of exit strategies and appear to deal with this through a combination of:
- **Entry strategy analysis**
 - **Monitoring of project and outcomes**
 - **Clear exit strategy management**

Good practice that can be applied to Canterbury

- 14.5 KCC require projects to align with corporate standards and objectives set in the Corporate Plan. These principles should apply at Canterbury although the setting up of a core team with associated costs is not practical at this authority, however it is essential that the recording and monitoring of bids and then projects is managed centrally, preferably within the Director Finance's Department.
- 14.6 At present it could be argued that there is still a 'scatter gun' approach to funding bids and there is a strong case to ensure that the CIFT process is used to assess and 'score' possible applications independently of the initiating officer or Head of Service. CIFT's Terms of Reference and remit link both the capital and revenue aspects of the Council's budgetary processes.
- 14.7 There is also a need to balance the size of the bid and ongoing implications with the council's approval requirements (financial regulations) and in line with the more strategic approach adopted by KCC.
- 14.8 In financial terms the ultimate aim should be that when the budget strategy is produced or the annual review of the budget takes place there should be no surprises, other than legislative or totally unforeseen service issues. Problems should not just come to light when budget reviews take place.

- 14.9 The Council currently has a designated External Funding post but the officer is presently employed on other duties. Consideration should be given to reinstating the post and also as to the optimum place to locate – continue within the Chief Executive’s Department (linked to the regeneration group or in the Director of Finance’s where it could operate with the central monitoring function proposed elsewhere in this report). This issue is dealt with in greater detail by the ‘Serving the Local Economy’ Best Value Review.

Recommendation 15 – *All bids for external funding should be linked to the Council’s core corporate objectives as prescribed in the Corporate Plan*

15 Project Review

- 15.1 It was considered that an integral part of the Exit Strategy process was a continuing and structured review process during the lifetime of the project and, at its conclusion an appraisal of its success – did it achieve what it set out to do and what lessons can be learned both from identified problems or examples of good practice. It was considered essential that this information was fed back into the process to produce a Best Practice approach.

Recommendation 16 – *Review should be undertaken after the first and second six-month periods, with annual reviews thereafter during the life of the project. These should be reported initially to Management Team and the Portfolio Holder(s) with a report to Overview and Scrutiny Committee.*

Recommendation 17 - *Each project to be reviewed at its conclusion by Management Team, and if necessary reported to Overview and Scrutiny Committee, to allow Members to assess its success (or otherwise) and to identify gains/losses to inform the future decision making process*

Recommendation 18 - *A ‘Good Practice’ Guide should be introduced based on the Recommendations of this review*

Recommendation 19 - *The councils project management toolkit guidance should be updated to reflect the outcome of the review.*

16 Training

- 16.1 Applying for, and obtaining, external funding and the on-going management of the project itself are complex and responsible activities. There was no evidence of training or awareness courses within the Council specific to this area of work. Training for project management does exist but the managing of partnership schemes cuts across a range of skills and policies – for example - Corporate Governance, risk assessment, Financial Standing Orders, Procurement Policy.
- 16.2 It is essential that staff who are expected to manage complex schemes with potentially large budgets over a number of years are given the skills and support to carry this out.

Recommendation 20 - *A training programme to be developed for those involved in the bidding/monitoring process to include Financial Regulations and Contract Standing Orders, the Procurement Policy and*

Corporate Governance issues – possibly using the Finance Module of the Management Training Scheme.

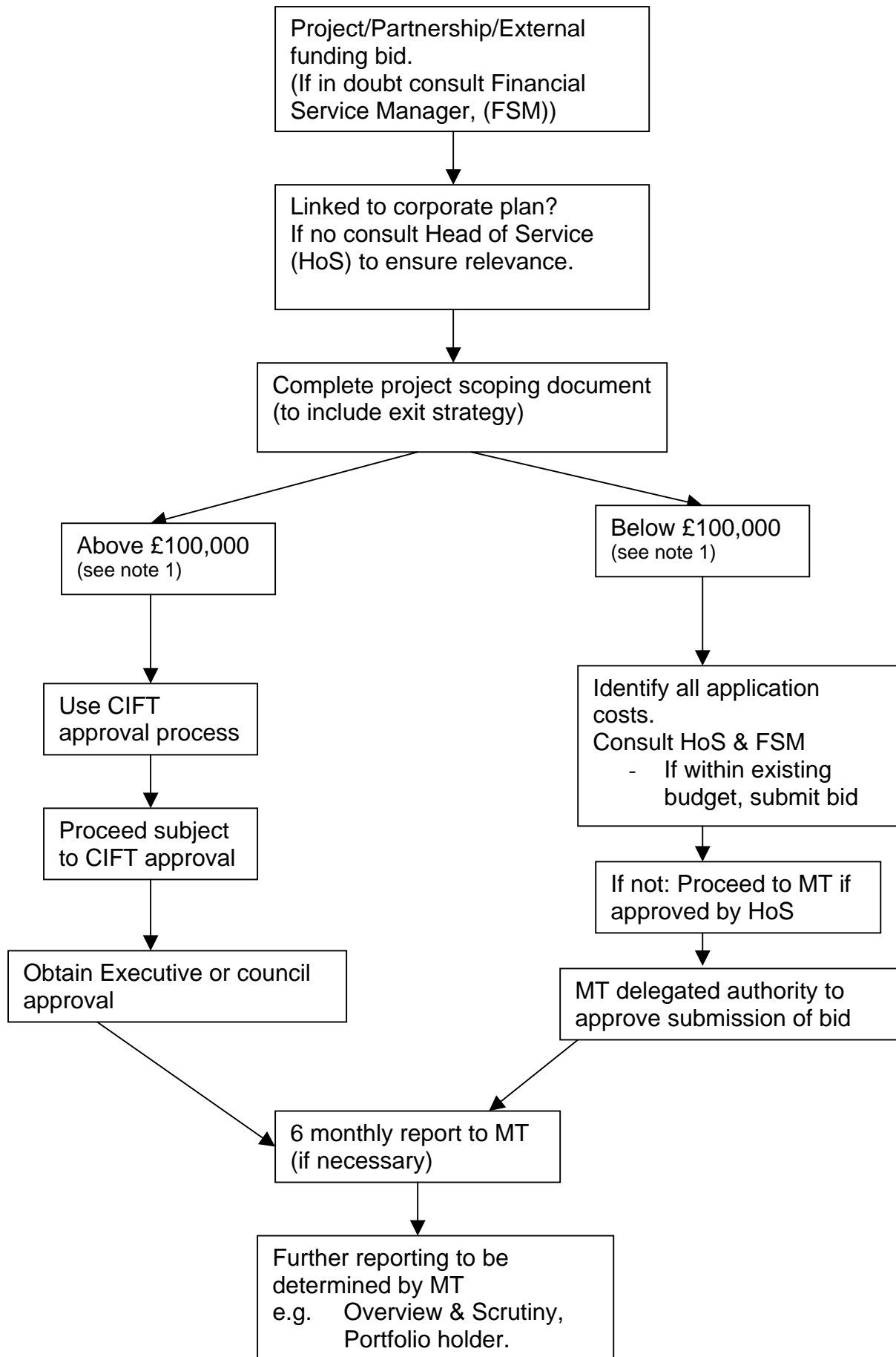
17 Conclusions

- 17.1 The purpose of this review was not to undertake a ‘witch–hunt’ of perceived problematical schemes but to establish where mistakes may have been made and also to recognise where good practice had been developed and applied. This way common themes could be established and suitable recommendations made.
- 17.2 The council has a commendable and successful approach to obtaining external funding to support its aspirations. Historically the enthusiasm for seeking funding has sometimes outweighed a considered approach to the on-going liabilities or risks that the council would inherit should factors affecting the funding change and, as a consequence, suitable exit strategies were not in place. However it is not the purpose of this report to discourage this active pursuit of external funding but to recommend a safe framework within which it can operate.
- 17.3 There are existing procedures in place that give guidance of what is expected and required when bids are made. It is clear that these are not always followed consistently across the council and as a result have left the council exposed to risk in certain projects.
- 17.4 An exit strategy needs to include an action plan for securing the future of the work, if appropriate. There should be a period of evaluation of the success of the work, an impact analysis on the effects of the work finishing and a range of options presented for the way forward – for example to end the project, seek additional funding or to absorb the work into existing practices.
- 17.5 However, lessons have, in the main been learned, although there are still projects that fall short in protecting the Council from these risks. These have been identified and will require further work to ensure any inherent risks are mitigated or reduced.
- 17.6 The proposed Recommendations and Action Plan help to give a more consistent approach to external funding bids (and should equally be applied to partnership arrangements financed from within the council's own budget framework) linking existing policies and criteria as well as providing new guidelines. They also help to focus the control and management of the bidding process centrally to ensure that there is a consistency of approach and a central monitoring source. The action plan gives a structure for implementing these recommendations
- 17.7 Finally, the key elements that govern a successful project, be it externally or internally funded, are the existence of a:

Pre-application process
Entry strategy analysis
Monitoring of project and outcomes
Clear exit strategy management
Project review and feedback process

18 Action Plan

ANNEX B: PROJECT/PARTNERSHIP/EXTERNAL FUNDING FLOW CHART



Note 1: Officers putting forward bids for funding should note that sums above £100,000 involve a key decision and inclusion on the Forthcoming Decision list. If insufficient time exists to obtain Executive approval, Heads of Service should seek Management Team advice.

Annex A: Exit Strategies Scrutiny Review Action Plan

Priority High/Medium: High: Crucial to success of review, Medium: Essential in longer term

N°	Actions	Responsible Officer/group	Estimated Cost	Delivery Date	Progress to date
1	All arrangements involving partnership agreements (utilising external and internal funding) must contain Exit Strategies to cover the planned or forced withdrawal from the agreement.	Partnership / project leader	Within Existing Budgets	January 2005	Included in revised project management toolkit. All projects now have a dedicated risk assessment section, which should be used to identify key risks, such as the lack of an exit strategy.
2	Business Plans (on larger projects) and formal Service Level Agreements should be included in all arrangements to clearly identify the costs and the responsibilities of each party, particularly at the conclusion of the project. (Partnerships only - see note¹)	Partnership / project leader	Within Existing Budgets	January 2005	It is suggested that the requirement to clearly identify the costs and responsibilities should be included in revised project management toolkit, but that the production of a business plan should depend on: a) The amount of funding (e.g. below or above £100K see recommendation 3). b) A risk-based assessment using the duration and impact of any external funding components Service level agreements (SLAs) are produced regularly by services and nearly all costs/responsibilities should already be covered in them. In cases where they are not then the SLA should take the form of a short supplement to the existing agreement.
3	A central, core team, or person within the council should be informed of all bid submissions and approvals. (Corporate Services)	Head of Finance	Within Existing Budgets	Implementation date	This has been included in the revised CIFT procedures (attached) that separate bids below £100,000 (approval by Head of Service and relevant Service accountant) and over £100,000 (approval by CIFT).
4	The Finance division should continue to manage the arrangements whereby grant is applied correctly.	Head of Finance	Within Existing Budgets	Implementation date	This established procedure continues.
5	Financial regulations are amended to ensure that each partnership involving financial risk contains an exit strategy.	Head of Finance	Within Existing Budgets	September 2005	This recommendation awaits the next revision of Financial regulations, which should also update the council's decision-making process on external funding.

¹ In some cases funding arrangements may be unclear as they relate to a funding bid, partnership and a project or combinations thereof. If there is any doubt what rules should apply then the relevant Financial Services Manager can provide guidance.

Annex A: Exit Strategies Scrutiny Review Action Plan

Priority High/Medium: High: Crucial to success of review, Medium: Essential in longer term

N°	Actions	Responsible Officer/group	Estimated Cost	Delivery	Progress to date
				Date	
6	<i>Any bid should identify the in-house costs of making the application, the costs of all support/central costs in managing the project during its life span and those incurred in its conclusion i.e. lifetime costs should be clearly identified and transparent, as should any inherent risks.</i>	CIFT	Within Existing Budgets	Ongoing	The revised project management toolkit scope (pages 6 and 8) and revised CIFT procedures now require that full costs are identified when making a bid.
7	<i>The amendments proposed under 11.3 to 11.8 in the report should be adopted.</i>	Management Team	Within Existing Budgets		The amendments have been incorporated into the revised CIFT bidding process.
8	<i>Any future year(s) additional costs resulting from partnership or external funding bids should be identified to the Council or Management Team at the outset. Departments will be required to identify how they will deal with such costs, including the possibility of terminating the project and with due regard to their current budget position.</i>	Partnership / project leader Management Team	Within Existing Budgets	Ongoing	Management Team are now enforcing the use of the project management toolkit methodology (page 6) on all corporate projects. Key review points or 'gateways' are used to ensure that partnership costs, matched funding liabilities and risks are fully identified.
9	<i>One pre-project appraisal form (to include the proposed Partnership Check List) for all partnership should be developed for, and form part of the CIFT process and to include:</i> <ul style="list-style-type: none"> <i>• Positive weighting for Corporate Plan items etc</i> <i>• Positive weighting linked to demonstrable benefits</i> <i>• Negative weighting related to risk element and poor return</i> 	CIFT	Within Existing Budgets	Within 2 months of approval date	CIFT have developed an evaluation process that takes account of the corporate plan, demonstrable benefits, and risk. The evaluation check list is available on the Council intranet: (http://intranet.canterbury.gov.uk/cgi-bin/buildpage.pl?mysql=783).

Annex A: Exit Strategies Scrutiny Review Action Plan

Priority High/Medium: High: Crucial to success of review, Medium: Essential in longer term

N°	Actions	Responsible Officer/group	Estimated Cost	Delivery Date	Progress to date
10	<i>Where Exit Strategies have been shown not to exist, or do not adequately address the problems (High and Medium Risks), a report detailing proposed remedial action, is to be taken to Management Team (within six weeks of the approval of this Review) by the relevant Head of Service/Lead Officer for consideration, before deciding to refer the matter to Overview and Scrutiny Committee. These should explain how the problem has arisen and detail what remedies they intend applying to resolve the problems identified.</i>	Head of Service Partnership / project leader	Within Existing Budgets	Within 6 weeks of approval date – December 2004	The issues raised in this review have been considered as part of the Star Chamber process, the budget strategy includes appropriate financial provision for these service areas.
11	<i>If applicable, clear ongoing support needs to be available from core staffing when the funding has ended, the financing of such support needs to be clearly identified and available.</i>	Partnership / project leader	Identified as part of budget at start of project	Ongoing	Included in revised project management toolkit.
12	<i>In the Community Development Service, the core team needs to be established to provide this support for all future bids.</i>	Head of Housing / Community Development	Not known at this stage – Star Chamber bid submitted	February 2004	Completed. Core team in place.
13	<i>Staff employed in externally funded positions need to be made aware of the time-limited nature of the post at all stages of recruitment and in employment contracts.</i>	Partnership/ project leader & Head of Personnel	Within Existing Budgets	May 2004	Employment contracts now include this information.
14	<i>All bids for external funding should comply with financial regulations and be linked to the Council's core corporate objectives as prescribed in the Corporate Plan.</i>	All	Within Existing Budgets	June 2004	This requirement is included in revised project management toolkit and CIFT appraisal process. However, for some projects that deliver a benefit to the council, there may be circumstances where bids for external funding are made without an explicit link to the Corporate Plan. In such cases the relevant head of service should approve the rationale, including a clear statement of the potential benefits for the bid. In such cases it will be the responsibility of the head of service to ensure that the relevant financial regulations are complied with.

Annex A: Exit Strategies Scrutiny Review Action Plan

Priority High/Medium: High: Crucial to success of review, Medium: Essential in longer term

N°	Actions	Responsible Officer/group	Estimated Cost	Delivery Date	Progress to date
15	Reviews should be undertaken after the first and second six-month periods, with annual reviews thereafter during the life of the project. These should be reported initially to Management Team and the Portfolio Holder(s) with a report to Overview and Scrutiny Committee.	CIFT	Within Existing Budgets	May 2004	This requirement is included in revised project management toolkit; concerns have been expressed at the level of bureaucracy this requirement would impose. It is therefore proposed that major projects reliant on external funding over £100K should follow the procedures set out in the revised CIFT approval process. Whilst those under £100K, the relevant Head of Service and Financial Service Manager should be appraised of progress 6 months after a project involving external funding starts. It will then be for the Head of service to decide if a report to Management Team is required and for management team to decide if a further report to Portfolio holder and Overview Committee.
16	Each project to be reviewed at its conclusion by Management Team, and if necessary reported to Overview and Scrutiny Committee, to allow Members to assess its success (or otherwise) and to identify gains/losses to inform the future decision making process.	CIFT	Within Existing Budgets	Ongoing	Included in revised project management toolkit, although it is proposed that the procedure set out in action 15 is followed.
17	A 'Good Practice' Guide should be introduced based on the Recommendations of this review.	Head of Finance	Within Existing Budgets		This is included in the response to recommendations 18 & 19.
18	The councils project management toolkit guidance should be updated to reflect the outcome of the review.	Head of Policy and Improvement	Within Existing Budgets	December 2004	The councils project management guidance has been comprehensively updated. The new project management toolkit, together with specific guidance appendices covering: events, partnerships, and gateway reviews, was published at the end of January 2005.
19	A training programme to be developed for those involved in the bidding/monitoring process to include Financial Regulations and Contract Standing Orders, the Procurement Policy and Corporate Governance issues – possibly using the Finance Module of the Management Training Scheme.	Head of Finance	Within Existing Budgets		The Financial Management Training module is currently being developed and roll-out is scheduled for March 2005