

Mid Devon District Council

Review of the Council's Arrangements for Securing Financial Resilience

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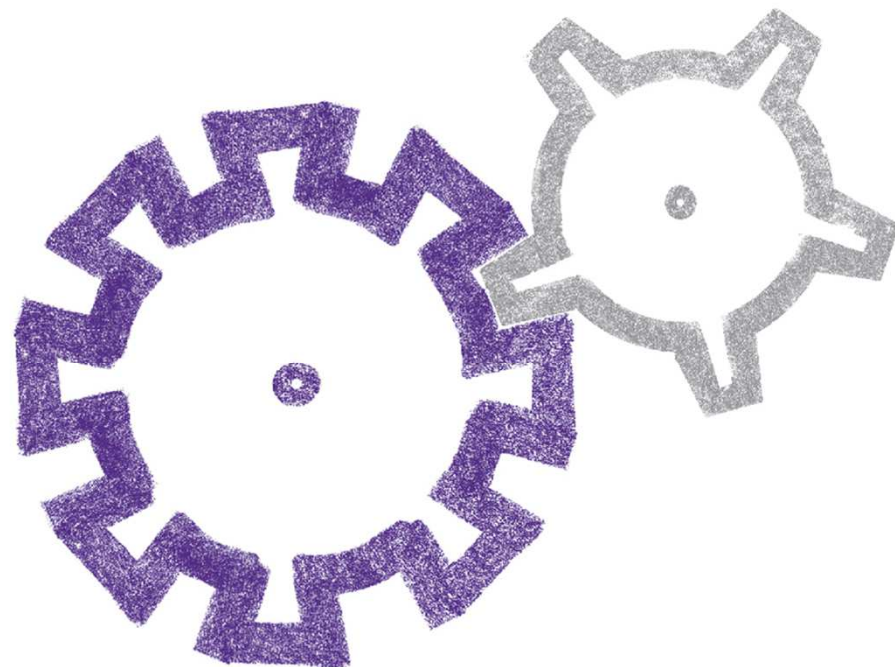
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Executive Summary

Our approach

Value for Money Conclusion

Our work supporting our Value for Money (VFM) conclusion, as part of the statutory external audit, includes a review to determine if the Council has proper arrangements in place for securing financial resilience.

In so doing we have considered whether the Council has robust financial systems and processes in place to manage its financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future. We have carried out our work in discussion and agreement with officers and completed it in such a way as to minimise disruption to them.

The definition of foreseeable future for the purposes of this financial resilience review is 12 months from the date of this report.

We have reviewed the financial resilience of the Council by looking at:

- Key indicators of financial performance;
- Its approach to strategic financial planning;
- Its approach to financial governance; and
- Its approach to financial control.

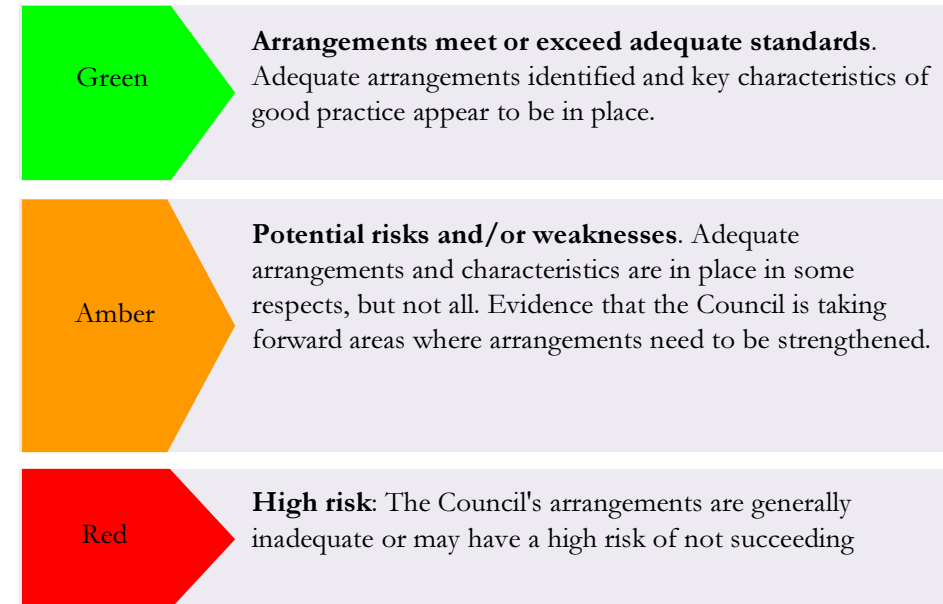
Further detail on each of these areas is provided in the sections of the report that follow.

Our overall conclusion is that: the Council has adequate arrangements in place to achieve financial resilience.

Whilst the Council has marginally overspent in the last two years, it has shown that it can achieve its savings targets..

The Council has a medium term financial plan, which recognises the need for substantial future savings. Whilst the Council has not yet identified fully the savings required, there is a clear focus on doing so.

We have used a red/amber/green (RAG) rating with the following definitions.



Executive Summary

National and Local Context

National Context

The Chancellor of the Exchequer announced the Spending Review (SR10) to Parliament on 20 October 2010. This formed a central part of the Coalition Government's response to reducing the national deficit, with the intention to bring public finances back into balance during 2014/15.

The associated report published Government Departmental Expenditure Limits (DELs) for the four-year spending review period: 2011/12 to 2014/15. CLG funding was reduced by 26% over the period.

This follows a period of sustained growth in local government spending, which increased by 45% during the period 1997 to 2007. The funding reductions come at a time when demographic and recession based factors are increasing demand for some services, and there is a decreasing demand for some services, such as car parking, where customers pay a fee or charge.

Local Context

The Council has seen a £1.5 million reduction in its formula grant from central government since 2011, together with the freeze on Council tax increases, the Council's Medium Term Financial Plan predicts a budget gap of £1.57 million over the next five years to 2017. This was before the government announced its intention to cut a further 10% from local government spending in June 2013.





A detailed saving exercise led by the Chief Executive and the Head of Finance has already identified £0.8 million of savings over the next three years. Further savings are expected from reduced employee costs, expanding partnership working, better procurement, alternative service delivery arrangements and spend to save projects. Management consider that the council is in a relatively strong position, but is aware that the underlying assumptions are volatile and will keep the plan under review.

Part of the Council's response has been to reduce its capital programme and therefore reduce the use of Revenue for capital financing. But, Government cuts has also meant that sources of Capital funding are also reducing at the same time. Despite these reductions, the Council still plans to invest over £6 million in each of the next four years, more than half of this is on Housing projects, including the building of new Council housing.

At 31 March 2013 the Council's General Fund balance stood at £2.6 million, against its target level of 25% of budgeted net expenditure (£2.4 million).

Executive Summary

Overview of Arrangements

Risk area	Summary observations	High level risk assessment
<p>Key Indicators of Performance</p>	<p>The Council's working capital ratio (current assets to current liabilities) was 2.25 at 31 March 2013 against the Group average in 2012 of 2.11. A ratio of 2 and above is generally considered to be appropriate. Council Tax and NNDR collection rates were both down on the 2011/12 rates and for both taxes the council's arrears have risen.</p> <p>Compared to its Group average spending per head of population is below the Group average, and the Council's Council Tax requirement is below the average.</p> <p>The Council's reserves as a percentage of net expenditure is above average</p> <p>Mid Devon has a high expenditure per head for its Culture and Sport services.</p> <p>Whilst our overall assessment is Green, we have included a recommendation to review services and costs, including the use of external benchmarking.</p>	<p> Green</p>
<p>Strategic Financial Planning</p>	<p>The Council has identified twice the required level of savings for 2013/14 and a substantial element of the savings needed in future years.</p> <p>The council has already identified areas for further savings, although these are not fully quantified as yet. The Council's strategic approach is robust, consulted on and involves members. Its planning is current and up to date. The consideration of challenges and the planning of assumptions is reported as part of the decision making process.</p>	<p> Green</p>
<p>Financial Governance</p>	<p>The Council's governance arrangements are sound. The Performance and risk report details the Council's financial position, included projected out-turn, and also progress against the Portfolio targets.</p> <p>The Council has processes in place, there is clear involvement from members who set the priorities and agree the actions going forward. There is regular reporting of the Council's performance to Cabinet and Committees.</p>	<p> Green</p>
<p>Financial Control</p>	<p>In 2012/13 the Council made a surplus of £164k in its general fund and £1,065k for the HRA.</p> <p>The Council has internal control arrangements, and there were no significant issues identified in 2012/13. We have issues an Amber assessment because the Council has lost a key members of its finance team and another officer is currently on long term sick leave, this could leave the Council at risk of weakening its financial control arrangements.</p>	<p> Amber</p>

Executive Summary

Next Steps

Area of review	Key points for consideration	Responsibility	Timescale	Management response
Performance Indicators	As pressure increases on the Council to find more saving, it needs to review its services to ensure that they continue to deliver value for money	Management team	31 December 2013	A series of summer savings meetings have been held, involving Heads of service, Head of finance and the Chief executive. These meetings have already identified significant savings and the unidentified funding gap is now only £150k.
Financial control	The Council has lost a key members of its finance team and another officer is currently on long term sick leave, this could leave the Council at risk of weakening its financial control arrangements.	Head of Finance	Ongoing	Staffing resources are constantly under review. Temporary shortage has been covered and this is not yet a pressure point.

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Appendix - Key indicators of financial performance

Key Indicators

Introduction

This section of the report includes analysis of key indicators of financial performance, benchmarked where this data is available. These indicators include:





- Working capital ratio
- Long term borrowing to tax revenue
- Long term borrowing to long term assets
- Sickness absence levels
- Out-turn against budget
- Useable Reserves: Gross Revenue Expenditure
- Schools Reserves - Balances to DSG allocations

We have used the Audit Commission's geographical neighbours benchmarking group comprising the following authorities:

East Devon District Council
Mid Devon District Council
North Devon District Council
Taunton Deane Borough Council
Teignbridge District Council
Torridge District Council
Stroud District Council
West Devon Borough Council
West Somerset District Council





Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Liquidity	In 2011/12 The Council's working capital ratio (current assets to current liabilities) was almost 2, in 2012/13 this has increased to 2.25. The Group average was 2.11 in 2011/12. A ratio above 2 is generally considered appropriate. Tax collection rates for both and Council Tax decreased in year and Arrears for both taxes have increased.	 Green
Workforce	Sickness has fallen from 9.2 days to 7.8 days annually, which is below the Council's target of 8 days annually.	 Green
Performance Against Budgets: revenue & capital	The Council made a surplus of £164k against its budget in 2012/13. Principally £285k was saved from the salaries bill, although, as a result of the rise in arrears, the Council had to make an additional provision for bad debts of £120k.. The HRA was underspent by £1,065k, the majority of which has been earmarked for stock improvements.	 Green
Reserve Balances	The Council's usable reserves have fallen from £6,710k at 31 March 2012 to £6,245k at 31 March 2013. However, they are still above the Council's Group average. The HRA balance is above target at £1,968 and the Council has earmarked HRA reserves of £2,535. Although it should be noted the Council has plans to invest in its housing of £3,000k for each of the next four years. The Council's usable capital receipts increased in the year to 31 March 2013 to £757k	 Green

Key Indicators







Audit Commission Key ratios – Overview

Area of Spend	2011/12	Group average	Commentary (spend per head of population)	Assessment
Working capital ratio	2.02	2.11	Increased to 2.25 for 2012/13	 Green
General Fund Balance	£2,455k	£2,095k	General fund balance has increased in 2012/13, and is above the Council's set target range	 Green
Usable reserves to Gross revenue expenditure	13%	12%	The Council's usable reserves are below average for its Group group. Although the ratio has improved at 31 March 2013.	 Green
Usable capital receipts	£418k	£849k	Usable capital receipts are a small part of the Council's capital funding requirements. The low level means the Council has to rely on finding revenue monies to support its capital programme.	 Green

Source – Audit Commission Key ratio profiles





Key Indicators

Audit Commission VfM profile – Overview

Area of Spend	2011/12	Group average	Quartile	Commentary (spend per head of population)	Assessment
Total net spend per head	363.43	409.63	Q3	Spending per head of population is below the Group average	 Green
Council tax Benefits, Housing Benefit and Council Tax collection administration	18.37	17.21	Q2	As a result of a error in the completion of returns, these have been reported together. Overall administration costs are close to the Group average.	 Green
Spend on culture and sport	60.22	32.59	Q1	The council operates three leisure centres and 106 parks. Which entails a higher amount of activity than similar councils, this results in higher costs. The Council has prioritised its service provision in this area and that has resulted in above average expenditure per head of population. The Council has looked at utilising a leisure trust to reduce its spend in this year, but at present does not want to limit its options for future service delivery.	 Red
Environmental services	49.72	46.47	Q2	This reflects the Council's priorities and is not significantly above the average.	 Green
Housing Services	14.33	13.82	Q3	Homelessness is increasing, but costs remain close to average for the Group.	 Green
Sustainable economy	63.57	65.72	Q3	Costs are slightly below average.	 Green

Key Indicators

Audit Commission VfM profile – Financial Resilience

Indicator	2011/12	Group average	Quartile	Commentary	Assessment
Council Tax requirement	6,080k	6,231k	Q2	Requirement is falling and is below the Group average.	 Green
Income from Sales, Fees and charges as a % of total spend	16.80%	20.95%	Q4	Income is falling and is below the Group average	 Amber
Reserves as a % of net current expenditure	23.70%	17.20%	Q2	Reserves are rising against decreasing net cost of services.	 Green
Spend on management and support	47.90%	36.80%	Q2	Costs of collection are above average.	 Amber

Source – Audit Commission Value for Money profiles

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Strategic Financial Planning






Key characteristics of good strategic financial planning

In conducting our review of strategic financial planning we have assessed the Council's performance against the following indicators:

- Focus on achievement of corporate priorities is evident through the financial planning process. The MTFS focuses resources on priorities.
- The MTFS includes outcome measures, scenario planning, benchmarking, resource planning and details on partnership working. Targets have been set for future periods in respect of reserve balances, prudential indicators etc.
- Annual financial plans follow the longer term financial strategy.
- There is regular review of the MTFS and the assumptions made within it. The Council responds to changing circumstances and manages its financial risks.
- The Council has performed stress testing on its model using a range of economic assumptions including CSR.
- The MTFS is linked to and is consistent with other key strategies, including workforce.
- KPIs can be derived for future periods from the information included within the MTFS.

Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
Focus of the MTFS	<ul style="list-style-type: none"> The Medium Term Financial strategy was updated in October 2012 and covers the five years to 2017. The plan sets out the strategy for the next four years. It does not, however, draw any links to the Corporate priorities. The Council has identified twice the required level of savings for 2013/14 and a substantial element of the savings needed in future years. The council has already identified areas for further savings, although these are not fully quantified as yet. 	 Green
Adequacy of planning assumptions	<p>A set of base assumptions are set out in the MTFS.</p> <ul style="list-style-type: none"> Each year a balanced revenue budget will be set without the use of balances. The General Fund Balance will not fall below 25% of net expenditure (£2.4m) Resources will be directed to high priority services and hence away from low priority services. With the exception of spend to save projects on lower priority services Council Tax increases will be kept within Government set guidelines. Efficiency/procurement savings will be factored into future spending plans. and No prudential borrowing will be made during the life of the MTFS unless a fully costed business case with a reasonable “pay back” period can be demonstrated 	 Green
Scope of the MTFS and links to annual planning	<ul style="list-style-type: none"> The Annual Revenue budget was presented on 31 January 2013 The savings exercise, carried out during the summer, identified saving proposals of £606k for 2013/14, £390k for 2014/15 and £15k for 2015/16. The MTFS identified the need for £320k of saving in 2013/14. The Capital programme amounts to £7,851k, principally to fund housing projects of £5,480k, including the building of new HRA properties. 	 Green
Review processes	<ul style="list-style-type: none"> The MTFS will be kept under review as assumptions change. The MTFS will be reviewed alongside the annual budget setting process. 	 Green
Responsiveness of the Plan	<ul style="list-style-type: none"> The Council repeated the savings review process, led by the Chief Executive and the Head of Finance. Process involved all heads of service, service managers and the finance team. The process considers variations to the underlying assumptions, but alternatives were not put to Committee. 	 Green

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Appendix - Key indicators of financial performance

Financial Governance

Key characteristics of effective financial governance

In conducting our review of financial governance we have assessed the Council's performance against the following indicators:

Understanding

- There is a clear understanding of the financial environment the Council is operating within:
 - Regular reporting to Members. Reports include detail of action planning and variance analysis etc.
 - Actions have been taken to address key risk areas.
 - Officers and managers understand the financial implications of current and alternative policies, programmes and activities.

Engagement




- There is engagement with stakeholders including budget consultations.

Monitoring and review

- There are comprehensive policies and procedures in place for Members, Officers and budget holders which clearly outline responsibilities.
- Number of internal and external recommendations overdue for implementation.
- Committees and Cabinet regularly review performance and it is subject to appropriate levels of scrutiny.
- There are effective recovery plans in place (if required).



Financial Governance

Understanding and engagement

Area of focus	Summary observations	Assessment
Understanding the Financial Environment	<ul style="list-style-type: none"> The MTFS includes a summary of the challenges facing the Council over the five years of the strategy. Each budget report sets the short term context and analyses the position of the Council. The Council's Standing orders and financial regulations makes it clear that all managers have responsibility for financial management. The Corporate risk register includes risks arising from the "credit crunch". 	 Green
Cabinet and Member Engagement	<ul style="list-style-type: none"> Management oversee the delivery of financial plans as part of its weekly meeting. Members are made aware of the financial implications of each report. 	 Green
Overview for controls over key cost categories	<ul style="list-style-type: none"> Annual budget setting process requires managers to present their service plans and proposals for further savings. Budget monitoring addresses the key areas to a detailed level. Variances are identified early and remedial actions put in place. 	 Green

Financial Governance

Understanding and engagement

Area of focus	Summary observations	Assessment
Budget reporting: revenue and capital	<ul style="list-style-type: none"> Budget reporting and monitoring is satisfactory and members are kept informed. Performance and risk report is presented to Cabinet six monthly. The performance and risk report, reports progress against each of the Council's portfolios. The performance and risk report includes specific Performance Indicators and measures against previous year and target. However, there is no external benchmarking. The Capital programme is reported alongside the revenue budget. 	 Green
Adequacy of other Committee/ Cabinet Reporting	<ul style="list-style-type: none"> Budgets are the responsibility of named managers reporting through portfolio holders to Committees and Cabinet. The Performance and risk report details the Council's financial position, included projected out-turn, and also progress against the Portfolio targets. 	 Green

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Financial Control

Key characteristics of effective financial control

In conducting our review of financial control we have assessed the Council's performance against the following indicators:

Budget setting and budget monitoring

- Budgets are robust and prepared in a timely fashion.
- Budgets are monitored at an officer, member and Cabinet level and officers are held accountable for budgetary performance.
- Financial forecasting is well-developed and forecasts are subject to regular review.

Savings Plans

- Processes for identifying, delivering and monitoring savings plan schemes are robust, well thought through and effective.

Financial Systems

- Key financial systems have received satisfactory reports from internal and external audit.
- Financial systems are adequate for future needs.

Finance Department




- The capacity and capability of the Finance Department is fit for purpose.

Internal Control

- There is an effective internal audit which has the proper profile within the organisation. Agreed Internal Audit recommendations are routinely implemented in a timely manner.
- There is an assurance framework in place which is used effectively by the Council and business risks are managed and controlled.





Financial Control

Internal arrangements

Area of focus	Summary observations	Assessment
Budget setting and monitoring - revenue and capital	<ul style="list-style-type: none"> The 2013/14 Budget was reported to 31 January 2013 Meeting of the Cabinet. Discussions have taken place through management team over the previous months. Budgets are the responsibility of named managers reporting through portfolio holders to Committees and Cabinet. Monthly budget monitoring reports to Cabinet.. Remedial actions are identified and monitored. 	 Green
Performance against Savings Plans	<ul style="list-style-type: none"> Processes for identifying, delivering and monitoring savings plan schemes are robust, well thought through and effective. Service managers identify savings and are held responsible for their achievement. 	 Green
Key Financial Accounting Systems	<ul style="list-style-type: none"> Internal Audit concluded that the Council's control environment was, on the whole, adequate and effective in the 2012/13 financial year. The Financial systems have always proved reliable and controls operate effectively. 	 Green

Financial Control

Internal and external assurances

Area of focus	Summary observations	Assessment
Finance Department Resourcing	<ul style="list-style-type: none"> No capacity issues identified. At the date of the report one Finance manager has retired and the other is on long term sick. The Head of Finance has put arrangements in place to cover the reduction in the finance team. 	 Green
Internal audit arrangements	<ul style="list-style-type: none"> Internal Audit is provided in-house by a team of auditors overseen by the Head of Communities and Governance. IA performance is reviewed annually, by the Audit Committee, for the Annual Governance Statement. No concerns raised by the Audit Committee. 	 Green
External audit arrangements	<ul style="list-style-type: none"> The provision of External Audit has transferred from the Audit Commission to Grant Thornton as part of a five year contract let by the Minister for Communities and Local Government. The External auditors made no significant recommendations in its Annual Audit Letter or its Annual Governance Report. 	 Green
Assurance framework/risk management	<ul style="list-style-type: none"> Risk management is assessed at the Corporate level by the Audit Committee. There are risk registers at service level, each project is also risk assessed. The Council has risk management policy in place and this was last reviewed in March 2013. 	 Green

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Key Indicators of Financial Performance

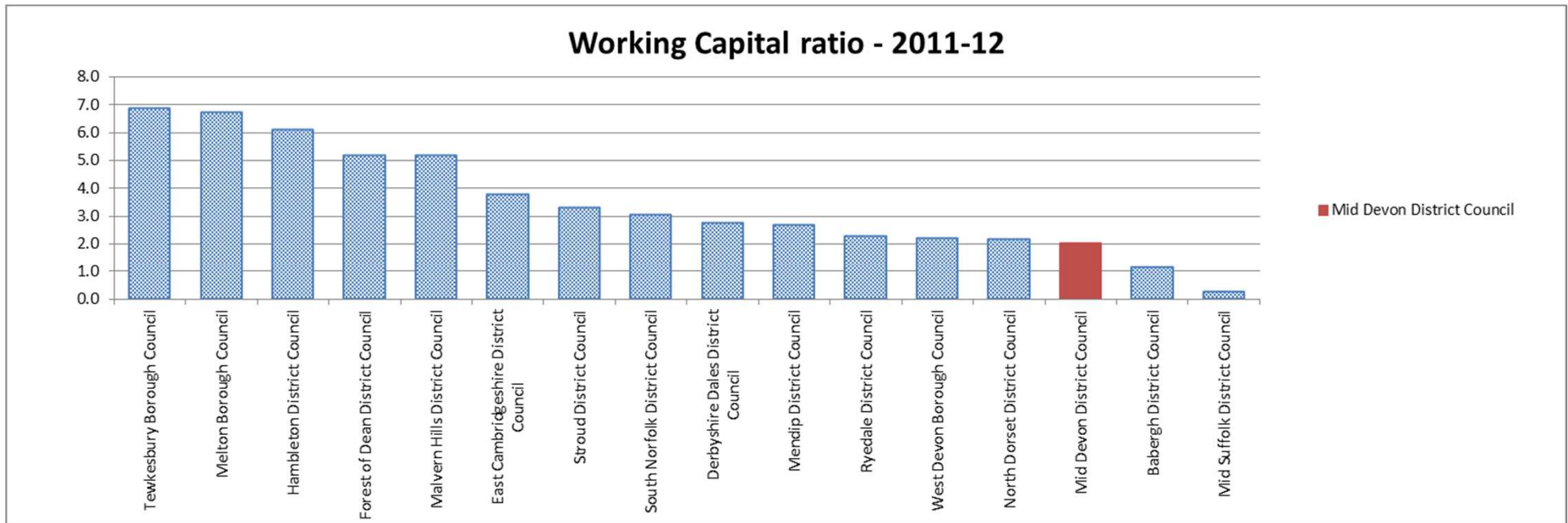
Working Capital - Benchmarked

Definition

The working capital ratio indicates if an authority has enough current assets, or resources, to cover its immediate liabilities - i.e. those liabilities to be met over the next twelve month period. A ratio of assets to liabilities of 2:1 is usually considered to be acceptable, whilst a ratio of less than one - i.e. current liabilities exceed current assets - indicates potential liquidity problems. It should be noted that a high working capital ratio isn't always a good thing; it could indicate that an authority is not effectively investing its excess cash.

Findings

In 2011/12 the Council's working capital ratio was low. This indicates that the Council has a small level of current assets to cover its short term liabilities. The 2012/13 shows an increase in the ratio to 2.25.



Key Indicators of Financial Performance

Useable Reserves - Benchmarked

Definition

This shows useable capital and revenue reserves as a share of expenditure. A ratio of one means the total reserves matches the level of expenditure.

Findings

The Council's has a level of usable reserves that is below average for its Group group. The ratio has improved slightly at 31 March 2013.2012/13.

