

Report on Value for Money for Mid Devon District Council

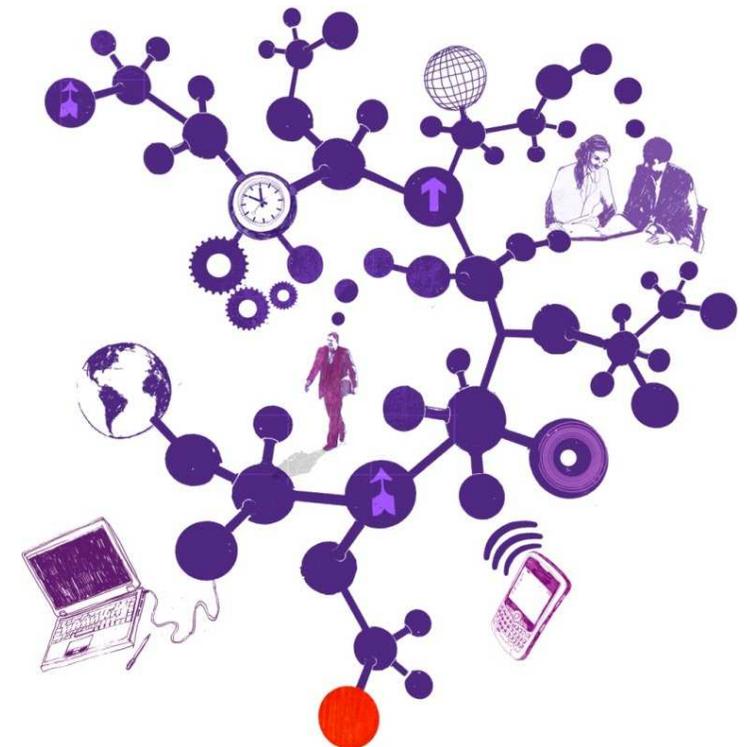
Year ended 31 March 2015

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Introduction

What is this report?

This report summarises the findings from our work supporting our Value for Money (VfM) conclusion, which is required as part of the statutory external audit responsibilities.

It compliments our Audit Findings Report, as presented on 28 July 2015, by providing additional detail on the themes that underpin our VfM conclusion.

Value for Money Conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VfM conclusion based on two criteria specified by the Audit Commission, which support our reporting responsibilities under the Code.

These criteria are:

The Council has proper arrangements in place for securing financial resilience: the Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future (defined by the Audit Commission as "twelve months from the date of issue of the report").

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness: the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

The Code require auditors to identify significant risks to the VfM conclusion and to plan sufficient work to evaluate the impact of those risks, if any.

Our approach

The approach involves:

- desktop analysis of relevant documentation
- meetings with key internal stakeholders
- a risk assessment to identify any significant risks.

Our approach is designed to assess:

- arrangements in place related to the specified criteria
- performance during 2014/15 and what that says about those arrangements
- any significant risks that we have identified.

Introduction

SPJ2

What is this context?

Nationally

The last Parliament saw reductions in central funding to Local Government that will have reached 40% by the end of 2015/16.

The Conservatives made a manifesto commitment to move public finances into surplus during 2018-19, so a further two years of deficit reduction are planned. The commitments specific to local government have a key focus on growth and devolution and include:

- devolving far-reaching powers over economic development, transport and social care to those large cities that choose to have elected mayors;
- rebalancing the economy by building a Northern Powerhouse and by backing elected Metro Mayors;
- introducing financial incentives to councils for promoting economic growth, including piloting the retention of 100% of business rate growth (with Cambridgeshire, Greater Manchester and Cheshire East);
- delivering more bespoke Growth Deals with local councils, where backed by LEPs;
- supporting Business Improvement Districts to bring greater collaboration on local issues.

The level of further departmental spending cuts – including those affecting local government – will not be announced until this Autumn's Spending Review.

Locally

The continuing funding and cost pressures mean that it remains important that Mid Devon District Council has sound arrangements for securing Value for Money.

The Council reported a deficit of £80k for 2014/15, and the Housing Revenue account was overspent by £4k. Overall, there was good financial planning and robust monitoring through the year. There have been one-off gains such as higher than expected new-homes bonus, these have been set-aside for the Council's specific plans.

Usable reserves at 31 March 2015 were £9.3m and HRA of £8.7m, which is an increase on 31 March 2014, so overall, the Council's financial position at the year end remains healthy. However, the Council's forward-looking financial plan recognises the need for savings in 2015/16 of £0.26m and the medium term financial strategy recognises further budget pressures of £2.1m over the next four years to 2018/19.

Slide 5

SPJ2

were they always predicting an overspend? if so that is ok but if they weren't that is not good financial planning

Steve P Johnson, 04/11/2015

Executive Summary

Overall Risk Assessment

There were no significant risks identified during our VfM planning.

Overall VfM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against key indicators of financial performance and the three expected characteristics of proper arrangements, as defined by the Audit Commission:

- strategic financial planning
- financial governance
- financial control.

Overall our work highlighted that the Council faces difficult decisions to address its reduced funding over the next four years. However, the Council; is in a strong position regarding its reserves levels and does have strategy in place . The Council has a good record in meeting tough financial challenges.

Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within and whether it has achieved cost reductions and improved productivity and efficiencies. Overall our work highlighted The Council's plans prioritise its resources reflecting the financial constraints. The Quarterly Performance and Risk report measures and monitors service delivery to ensure that the Council's target performance does not suffer as a result of savings.

Executive Summary

GND4

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

Green	Adequate arrangements appear to be in place
Amber	Adequate arrangements, with areas for development
Red	Inadequate arrangements

Overview of arrangements

Risk area	Summary observations	High level risk assessment 2013-14	High level risk assessment 2014/15
Key Indicators of Financial Performance	<p>The VfM profiles and Financial ratios have not highlighted areas of unexplained weak performance.</p> <p>Financial ratios have all strengthened during 2014/15.</p> <p>The Value for Money profile highlights a few areas for which the Council's performance is below its nearest neighbours. These are known and link to the Council's priorities.</p>	Green	Green
Strategic Financial Planning	<p>The Council's strategic financial planning builds on its annual revision of the five year medium term financial plan.</p> <p>The summary position for the MTFP, over the next 5 years, shows an overall deficit totalling £2.1m over the life of the plan. The Council has a savings plan that identifies a number of longer term savings.</p> <p>The plan details the savings required on an annual basis, the remaining gaps will be addressed as part of the annual budget setting exercise that commences in July each year.</p>	Green	Green
Financial Governance	<p>The Budget comes under great scrutiny. There is a thorough quarterly financial out-turn report that highlights areas of over and underspend, projects the year end position, and any future uncertainties and sets out action being taken to redress any identified problems.</p> <p>The Council has a performance and risk report. This monitors on-going delivery of key Performance Indicators</p> <p>The Performance and risk report monitors closely the service delivery, any drop in performance is discussed and addressed.</p>	Green	Green

Slide 7

GND4

re there any gaps? we gave them a green because there were no gaps like other councils- can we clarify this here

Gerri N Daly, 04/11/2015

Executive Summary

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

Green	Adequate arrangements appear to be in place
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Red	Inadequate arrangements

Overview of arrangements

Risk area	Summary observations	High level risk assessment 2013-14	High level risk assessment 2014/15
Financial Control	<p>The Council has a good track record of achieving its plans.</p> <p>The Medium Term Financial plan assumes a constant level of General Fund and Housing Revenue Account reserves.</p> <p>The Budget setting process does not rely on one-off fixes to achieve the projected funding gap.</p> <p>The Finance team remains stable and out-turn reports are prepared quarterly and reported to members.</p> <p>The Council's Audit Committee monitors the corporate risk register and ensures that agreed action plans are completed.</p>	Green	Green
Prioritising Resources	<p>Management team receive and assess the in year savings. These are analysed to ensure there is a strategic fit with the Council's priorities.</p> <p>The annual budget and the updated MTFP are monitored and reviewed by management team and subsequently by members.</p> <p>Service managers and supervisors are involved in the first round of identifying savings.</p>	Green	Green
Improving Efficiency & Productivity	<p>The Council understands its areas of high cost. Analysis shows these are linked to priority areas, or reflect decisions made to keep services in-house compared to Councils that have outsourced.</p> <p>The Performance report tracks key Performance indicators, a few have not reached target. Actions are put in place and underperformance addressed.</p>	Green	Green

Key Indicators of Financial Performance

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

Green	Adequate arrangements appear to be in place
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Area of focus	RAG-Rating 2013/14	Summary observations for 2014/15	RAG-Rating 2014/15
Council Tax collection	Green	Council tax collection rate was 97.80% (97.56% in 2013/14) which is an increase over the year, but still below the target of 98% target. This is a positive result, given the expectation that collection would be difficult as Benefit claimants were required to contribute for the first time in 2013/14.	Green
NDR collection	Green	NDR collection rates were 99.00% (98.4% in 2013/14), an increase over the year. This represents a good result for the Council.	Green
Workforce	Amber	Sickness has risen to an average of 9.21 days from an average of 8.64 days in 2013/14. The Council's target is 7 days, However a few instances of long term absence have contributed to the high figure.	Amber
Performance against budgets (Revenue Capital & Savings)	Green	The Council reported a small deficit of £80k for 2014/15, (£163k in 2013/14) whilst the Housing Revenue account was overspent by £4k (surplus of £36k in 2013/14). This is very close to budget and demonstrates that the Council has achieved challenging savings targets. In 2014/15 capital expenditure amounted to £12,088k (£5,712k. in 2013/14), against the revised capital budget of £15,044k.	Green
Reserves balances	Green	At 31 March 2015 the Council held revenue reserves, general fund and earmarked, of £9,333k (£8,303k at 31 March 2014) and HRA reserves of £8,730k (£6,617k at 31 March 2014). This puts the Council's financial reserves in a good position looking forward.	Green

Key Indicators of Financial Performance

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

Green	Adequate arrangements appear to be in place
Amber	Adequate arrangements, with areas for development
Red	Inadequate arrangements

Area of focus	2014/15	2013/14	Commentary (spend per head of population)	RAG-Rating 2014/15
Working capital ratio	3.34	3.33	Proportion of current assets to current liabilities. The Council has cover for its current liabilities, although this is less than its nearest neighbours.	Green
General Fund Balance	2,380	2,460	General fund balance is constant and close to the Council's target level of £2,500k	Green
Usable reserves to Gross revenue expenditure	6,953	5,843	The Council increased its Earmarked reserves which included £663k increase in the New Homes bonus reserve.	Green
Usable capital receipts	985	1,071	The council has a low level of usable capital receipts. The Council's capital programme is fully funded through the planned use of new homes bonus, if grants are not available.	Green
Long term borrowing to tax revenue ratio	0.27	0.27	The level of debt to income remained static over the year.	Green

Source – Audit Commission Key ratio profiles

Key Indicators of Financial Performance

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

Green	Adequate arrangements appear to be in place
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Area of focus	2013/14	2012/13	Average 2013/14	Commentary (spend per head of population)	RAG-Rating 2014/15
Total net spend per head	359.71	373.24	419.64	Spending per head of population is below the Group average	Green
Spend on council tax benefits and housing benefits administration per head	10.43	16.92	13.11	Overall administration costs are below the Group average.	Green
Spend on culture and sport	54.03	52.08	30.24	The council has prioritised its service provision in this area and has retained the provision in-house. Therefore it is expected that expenditure will be high. The Council also has higher income from the service which compares favourably with the Council's neighbours.	Green
Environmental services	53.89	49.00	45.92	This reflects the Council's priorities and is not significantly above the average.	Green
Housing Services	12.35	16.00	13.81	Spending per head of population is below the Group average	Green
Sustainable economy	65.29	64.73	65.12	Costs are close to the group average.	Green

Source – Audit Commission Value for Money profiles

Key Indicators of Financial Performance

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

Green	Adequate arrangements appear to be in place
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Red	Inadequate arrangements

Area of focus	2013/14	2012/13	Average 2013/14	Commentary (spend per head of population)	RAG-Rating 2014/15
Council Tax requirement	5,712k	6,129k	5,798k	Requirement is falling and is below the Group average.	Green
Income from Sales, Fees and charges as a % of total spend	21.65%	19.11%	26.58%	Income is increasing but remains just below the average	Green
Reserves as a % of net current expenditure	29.30%	21.40%	20.80%	Reserves are rising against decreasing net cost of services.	Green
Spend on management and support	45.50%	45.60%	35.70%	The Council still maintains a Housing Revenue Account and still has in-house leisure services and refuse and recycling provision which means the cost of management and support will be proportionately higher	Amber

Source – Audit Commission Value for Money profiles

Strategic Financial Planning

Area of focus	RAG-Rating 2013/14	Summary observations for 2014/15	RAG-Rating 2014/15
Focus of the MTFP	Green	The summary position for the MTFP, over the next 5 years, shows an overall deficit totalling £2.1m over the life of the plan. This is clearly a growing challenge based upon a number of assumptions, caveats and decisions and is now made even harder by the volume related risks that the Government has transferred to Councils with the changes to Council Tax Benefit and Business Rate localisation.	Green
Adequacy of planning assumptions	Amber	The planning assumptions are set out in the MTFP. These take account of the expected factors and identify initiatives that will enable savings to be made. The plan is detailed, but does not quantify all the targeted savings. However, the Council has achieved its target in the past.	Green
Scope of the MTFP and Links to Annual Planning	Green	The starting base for the MTFP is the 2014/15 approved budget, this is then adjusted for any supplementary estimates approved by the Council or any significant budget variances identified in the monthly budget monitoring report to the Cabinet. This base then has to be adjusted for unavoidable costs, such as, pay increases, inflation, service pressures associated with new legislation, a growing property base or improving performance, etc. The MTFP considers and makes assumptions regarding future levels of Council Tax (including the potential growth in Tax base) and the likely level of future Central Government funding.	Green
Review process	Green	Annual budget is monitored monthly and reported quarterly. The MTFP is only revisited in year if one of the underlying principles changes. The MTFP is updated each year, in the Autumn after budget consultations have been undertaken	Green
Responsiveness of the Plan	Green	There is a level of sensitivity analysis set out in an Appendix. Reporting to members highlights any risk areas where out-turn is different from the plan. Risk register includes a risk that the plan will not be achieved.	Green

Financial Governance

Area of focus	RAG-Rating 2013/14	Summary observations for 2014/15	RAG-Rating 2014/15
Understanding of the financial environment	Green	<p>The MTFP makes a number of financial assumptions based on a sensible and prudent approach, taking account of the most up to date professional advice that is available. These are detailed as an Appendix to the MTFP, outlining their sensitivity to change in values.</p> <p>Income sources are understood, and potential new sources (e.g. shop rents) are considered, even if a by product of strategic investment.</p>	Green
Executive & Member Engagement	Amber	<p>Management team meets weekly, The S151 officer is part of the management team and therefore has an oversight of all major decisions and actions. A member of the management team is in attendance at all Council meetings.</p> <p>A new Audit Committee was put in place in June 2015, with increased participation. This has provided a further increase to the level of challenge..</p>	Green
Overview for controls over key cost categories	Green	<p>The budget, savings plans and the MTFP are developed through the management team. Monitoring is on a quarterly basis to members.</p> <p>The action plan in response to issues arising is monitored through management team.</p>	Green
Budget Reporting (Revenue & Capital)	Green	<p>Budget comes under great scrutiny.</p> <p>Alongside the budget is the performance and risk report. This monitors the on-going delivery of the Council's key Performance indicators</p>	Green
Adequacy of other Committee Reporting	Green	<p>Although financial ratios not monitored, there is a comprehensive performance report each quarter.</p> <p>Financial ratios have been calculated and discussed with the Head of Finance.</p>	Green

Financial Control

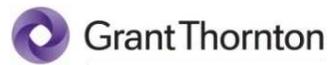
Area of focus	RAG-Rating 2013/14	Summary observations for 2014/15	RAG-Rating 2014/15
Budget setting & monitoring - revenue & capital	Green	Budget setting and MTFP planning is not reliant on one-off fixes but do map identified savings forward. The Council has a good track record of achieving its plans. The plan assumes a constant level of General Fund and Housing Revenue Account reserves.	Green
Savings plans setting & monitoring	Green	The Head of Finance and the Chief Executive hold interviews with all managers ahead of budget setting; the aim is to identify savings and to discuss efficiency. The results of these meetings are presented as a planned savings list. The list is then discussed at management team and subsequently with members to arrive at the proposed savings plan.	Green
Key financial accounting systems	Green	Internal Audit complete their work on key financial systems in the final quarter of each financial year. A summary of which is reported in the annual audit report.	Green
Finance department resourcing	Green	The finance team is considered adequately resourced. Although vacancies are not being filled, the work is being redesigned to assist people working differently and some work has been being re-profiled, egg financial monitoring is quarterly rather than monthly	Green
Adequacy of Internal audit arrangements	Green	Internal Audit plans are discussed and agreed by the Audit committee. An annual self-assessment is undertaken and reported each year. Although the Chief Internal Auditor presents summarised audit findings at each committee, all reports are circulated to the audit committee and can be discussed in the meeting. Internal Audit plans have been substantially delivered with some agreed amendments in the year	Green
Assurance framework/risk management processes	Green	Council has revised its governance strategy in 2014/15 and the 2014/15 Annual Governance Statement was presented and agreed with the Audit Committee.. Action plans, resulting from the statement are followed through, along with all recommendations arising from audit Committee reporting, with regular updates on actions to address weaknesses.	Green

Prioritising Resources

Area of focus	RAG-Rating 2013/14	Summary observations for 2014/15	RAG-Rating 2014/15
Leadership and challenge in prioritising resources	Green	<p>Management team receive and assess the in year savings. These are analysed to ensure there is a strategic fit with the Council's priorities. Progress against the budget is monitored and reviewed by management team and subsequently by members.</p> <p>The Corporate plan links to the MTFP and the annual budget flows from that process.</p> <p>Service managers are encouraged to find savings, including looking at alternative delivery methods. The Council has worked with other Council's (Torrige, North Devon and East Devon) in the past and currently has sharing arrangements in place with North Devon DC.</p> <p>The Council has outsourced in the past, but brought these back in-house following best value reviews.</p>	Green
Consultation with key stakeholders	Green	<p>Staff consultation is informal, done in team meetings, reported in newsletter, briefings to senior officers forum twice a year. Service managers and supervisors are involved in the first round of identifying savings.</p> <p>The newsletter allows opportunities for all staff to input ideas and opportunities. Department managers are encouraged to include staff in the identification of savings.</p> <p>The Council has not established many joint working relationships, although recent initiatives on are being trialled.</p> <p>Other partnership working is focused on statutory, or expected relationships (e.g. police town/parish councils).</p>	Green
Basis for decision making	Green	<p>The Council has not undertaken any major procurement exercises in recent years. However, management are open to approaches, where these fit the Council's priorities.</p>	Green
Understanding impact and outcome of decisions	Green	<p>The Council carries out best value reviews for all key decisions. All new proposals and efficiencies require a detailed business case.</p>	Green

Improving Efficiency & Productivity

Area of focus	RAG-Rating 2013/14	Summary observations for 2014/15	RAG-Rating 2014/15
Understanding costs	Green	The Council understands its areas of high cost.(see page 11) and where identified are in line with the Council's priorities.	Green
Data quality	Green	IT systems are robust. The Council uses its data to produce a comprehensive quarterly performance report. This analyses the Council's key performance indicators and highlights areas where action may need to be taken. IA review data submissions to ensure they are robust.	Green
Delivery of Savings and service re-design	Green	The Council has met its budget and exceeded its savings targets in the past, and achieved its Identified savings. Future savings plans are focused on achievable outcomes. Plans are detailed and there is no reliance on ad-hoc, one-off wins. The Council does not rely on its reserves to bridge savings gaps.	Green
Effectiveness of key services	Green	There is no evidence of key service failures. The Performance report tracks key Performance Indicators. The 2014/15 quarter 4 report highlights that some have not reached target, but the reasons are understood. Actions are put in place and underperformance addressed.	Green



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