

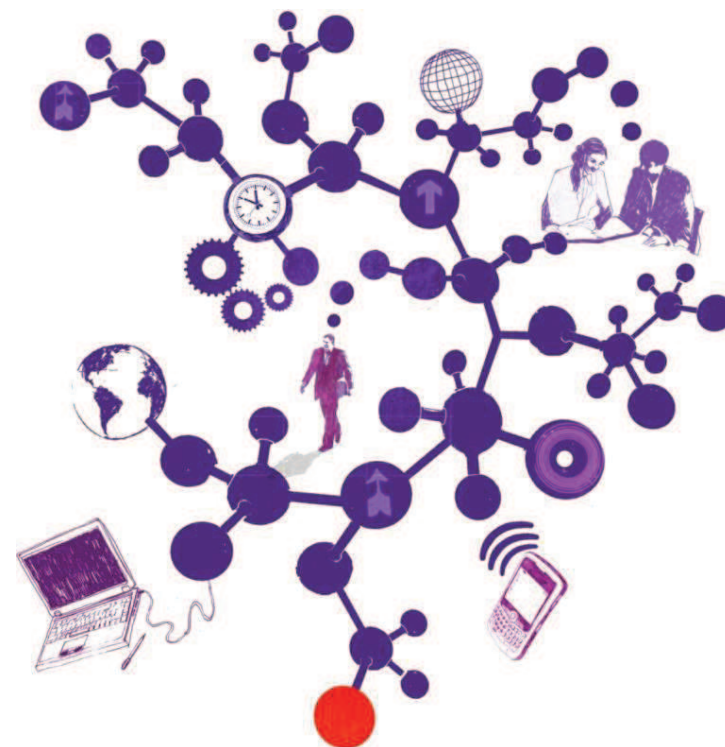
Report on Value for Money for Mid Devon District Council

Year ended 31 March 2014

Report date 2 December 2014

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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, 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 2013-14 and what that says about those arrangements
- any significant risks that we have identified.

Introduction

What is this context?

Nationally

The 2010 Spending Review set the Coalition Government's financial settlement for the four years to 2014/15, and the 2013 Review then covered 2015/16. By the end of this period, central funding to local government will have reduced by 35%.

2013/14 is the third year of councils having to deliver efficiency savings in response to the 2010 Spending Review and, given the 2013 Review and the budget statement in 2014, this will need to continue for the foreseeable future. Delivering these efficiency savings and maintaining financial resilience is becoming increasingly difficult, even for top-performing councils. The challenges include:

- responding to welfare reform; and
- the drive towards more integrated health and social care.

Demand for many demography-driven council services is expected to rise, whereas demand for some income-earning services is falling.

To fulfil their statutory requirements, councils must continue to provide certain services. But the opposing trends in funding and demand will create a sizeable funding gap even if carefully managed. In short, the sector is working through its greatest financial challenge of recent times.

Locally

Now, more than ever, it is important that councils have sound arrangements for securing Value for Money. The current Government has pledged to continue its austerity programme, which will undoubtedly result in an ongoing reduction in Local Government funding. Mid Devon has already received a grant reduction of £553k for 2014/15, and an indicative grant funding settlement for 2015/16, which proposes further extra funding reduction of £656k. To put into context, this is in addition to the Council's reduction in Formula Grant of over £2.0m since 2010/11.

The Council has responded and managed within this ever tightening resource envelope since 2011/12 by: developing a more commercial attitude, better procurement, and increasing income. It has initiated a number of spend to save projects (e.g. solar panels/renewable energy initiatives and leisure centre enhancements) and implemented reductions in staffing levels.

At 31 March 2014 the Council held general fund reserves of £2,460k and £2,004k of reserves in the HRA. Planned increases in Earmarked reserves were delivered in year, increasing balances from £6,157k to £10,456k (General Fund 5,843k and HRA £4,613k). This puts the Council's financial reserves in a good position looking forward. However, the Council are aware of the need to prepare for further savings as it is likely that further cuts will be made to Council funding.

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Executive Summary

Overall Risk Assessment

There were no significant risks identified during our VfM work for 2013/14.

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 2014

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.

The Council reported a surplus on its provision of services of £42k for 2013/14. The budget, when set, incorporated identified savings of £606k. The Council continues to achieve challenging savings targets having achieved savings of £1.520k in the previous two financial years.

Usable reserves at 31 March 2014 were £8,303k, which is an increase on 31 March 2013 of £2,058k, so overall, the Council's financial position at the year end remains healthy. The Medium Term Financial Strategy, approved in October 2013, highlighted that the Council still requires savings of £2,045k in the four years to 2017/18. Monitoring of the Council's performance for the three months to June 2014 indicates that the projected 2014/15 out-turn will be a deficit of £227k, which is 2% of the Council's net budget.

The Council underspent by £689k on the provision of its HRA services in 2013/14, which has been set aside to support the Council's stock modernisation programme.

The HRA reserves stood at £6,617k at 31 March 2014. The Council has a programme to bring its stock up to the decent homes standard by March 2015, and to continue its building of additional housing.

Challenging economy, efficiency and effectiveness

We have considered the Council's arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency & productivity

As identified last year, the Council has areas of spend, such as management support, leisure and waste management, that appear high in comparison with similar councils.

Executive Summary

Challenging economy, efficiency and effectiveness (continued)

- the Council still maintains its own HRA and has in-house provision of leisure services. This leads to higher management support, compared to other council's;
- in-house provision of leisure services results in higher reported gross expenditure. This is offset, to a greater extent, by income from it's leisure services which has increased by approximately £500k over the last four years. As a policy, the Council has prioritised its service provision in this area and that has resulted in above average gross expenditure per head of population.;
- the Council brought its recycling service in-house, and has made the growth of recycling a priority for the District. Increasing recycling attracts additional income and recycling credits. The Council believes that its net spend is not out of line when compared to its neighbours. The council is currently at the higher level partly explained by the provision of a free garden delivery waste service costing approx £500k.
- The Council is aware of these areas and is aware of the areas of high spend, and the compensating income gains. The council's finance team undertake various benchmarking exercises of its costs, for example refuse recycling and leisure. The spend on these services is line with the Council's plans and Mid Devon should continue to benchmark these areas to satisfy itself that they continue to provide value for money.

Executive Summary

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
Key Indicators of Financial Performance	The Council has some areas of above average spend, which are underpinned by compensating income gains. The Council's finance team undertake various benchmarking exercises of its costs, for example. refuse recycling and leisure.	Green
Strategic Financial Planning	The Council has a robust financial planning framework, that has delivered achievable plans in the past.	Green
Financial Governance	The Council has good governance arrangements with robust arrangements for risk management. However, there has been a number of recent challenges to the Council's governance.	Green
Financial Control	Financial control is good. The Council has a history of achieving or exceeding its budgets	Green
Prioritising Resources	The Council has a relatively high level of usable reserves. This puts the Council in a strong position to react to future pressures..	Green
Improving Efficiency & Productivity	Savings targets have been achieved and the Council continues to target services for efficiencies.	Green

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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






Further ratios examined:

Council Tax collection
NNDR collection
Examination of costs

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 of Financial Performance

Area of focus	Summary observations	Assessment
Council Tax collection	Council tax collection rate was 97.56% in 2013/14 which is a marginal decrease on 2012/13 (98.12%) and below the 98% target, but reflects the added difficulties in collecting Council tax following the changes in the Council Tax benefit scheme. Which is a good result, given that Benefit claimants were required to contribute for the first time in 2013/14.	 Green
NDR collection rates	NDR collection rates were 98.4% in 2013/14 which is an increase over 2012/13 (97.56%) and above the 98% target. This represents a good result for the Council.	 Green
Workforce	Sickness has risen from an average of 7.83 days in 2012/13 to 8.64 days per employee, above the 7 days target. This is as a result of a few instances of long term absence.	 Amber
Performance against budgets (Revenue Capital & Savings)	The Council recorded deficit of £163k on the General Fund and surplus of £36k on the HRA. This is very close to budget and demonstrates that the Council has achieved challenging savings targets. In 2013/14 capital expenditure amounted to £5,712k., against the planned capital spend of £10,502k. The three largest areas of slippage related to the building of new Council homes, backlog maintenance and the applications for Private sector housing grants.	 Green
Reserves balances	At 31 March 2014 the Council held reserves of £2,460k on the general fund and £2,004k on the HRA. Planned increases in Earmarked reserves were delivered increasing these balances from £6,157k to £10,456k (General Fund 5,843k and HRA £4,613k) this puts the Council's financial reserves in a good position looking forward.	 Green

Key Indicators







Audit Commission Key ratios – Overview

Area of Spend	2013/14	2012/13	Average 2012/13	Commentary (spend per head of population)	Assessment
Working capital ratio	3.33	2.26	2.30	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	£2,460k	£2,623k	£2,022k	General fund balance is low compared to the average, although the balance represents 34 days expenditure on services.	 Green
Usable reserves to Gross revenue expenditure	30%	21%	24%	The Council increased its Earmarked reserves which included £0.7m added to the modernisation reserve.	 Green
Usable capital receipts	£1,071k	£757k	£2,387k	The council has a low level of usable capital receipts compared to its near neighbours. 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	0.28	0.29	0.13	The council has its own housing stock, consequently its borrowing to finance the assets held is higher than that of most of the neighbouring councils.	 Green

Source – Audit Commission Key ratio profiles





Key Indicators

Audit Commission VfM profile – Overview

Area of Spend	2011/12	2012/13	Average 2012/13	Quartile	Commentary (spend per head of population)	Assessment
Total net spend per head	363.43	373.24	417.96	Q1	Spending per head of population is below the Group average	 Green
Spend on council tax benefits and housing benefits administration per head	18.37	16.92	15.12	Q3	Overall administration costs are close to the Group average.	 Green
Spend on culture and sport	60.22	52.08	30.64	Q4	The council operates three leisure centres and 106 parks. This entails a higher amount of activity than similar councils, thus 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 also significantly higher income from the service which compares favourably with the Council's neighbours.	 Green
Environmental services	49.72	49.00	45.71	Q4	This reflects the Council's priorities and is not significantly above the average.	 Green
Housing Services	34.33	16.00	13.81	Q3	Homelessness is increasing, but costs remain close to average for the Group.	 Green
Sustainable economy	63.57	64.73	66.59	Q3	Costs are slightly below average.	 Green

Key Indicators

Audit Commission VfM profile – Financial Resilience

Indicator	2011/12	2012/13	Average 2012/13	Quartile	Commentary	Assessment
Council Tax requirement	6,080k	6,129k	6,360k	Q2	Requirement is falling and is below the Group average.	 Green
Income from Sales, Fees and charges as a % of total spend	16.80%	19.11%	22.39%	Q3	Income is increasing but remains just below the average	 Green
Reserves as a % of net current expenditure	23.70%	21.40%	14.80%	Q1	Reserves are rising against decreasing net cost of services.	 Green
Spend on management and support	47.90%	45.60%	38.00%	Q4	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

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Strategic Financial Planning

Area of focus	Summary observations	RAG-Rating
Focus of the MTFP	<p>The Council's MTFS and the budget setting processes demonstrate that the Council does not just focus on short term solutions. More emphasis is on continuing savings.</p> <p>The levels of future savings have been measured. Scenario planning concentrates on the savings that can be achieved. However the MTFP does set out the assumptions built into the Council's plans. Cumulative savings of £2,045k are envisaged. over the remaining four years, of this the Council has identified £600k of the £970k needed for 2015/16. Monitoring suggests the council could return a small deficit for 2014/15.</p>	 Green
Adequacy of planning assumptions	<p>The assumptions used in the setting of the MTFP are clearly set out. However, There is no realistic scenario planning, to explore the sensitivity of the assumptions. Although options are explored during the budget setting process. These do consider degrees of delivery, true scenario planning would estimate the effects of parts of the proposed savings plan not occurring.</p> <p>Meetings are held in the summer, . Staff, Members and other interested parties draw up a list of savings, these are discussed by management and members to ensure that they are realistic and achievable. The resulting plan is considered through the Council's cabinet and Scrutiny committees, prior to the Full Council setting a budget.</p>	 Amber
Scope of the MTFP and Links to Annual Planning	<p>The annual budget is derived from the MTFP and is completed as part of the updating of the forecasts. The MTFP covers a five year horizon. Planning starts in the summer , nine months before the start of the financial year, and following discussions and consultation the annual budget and council tax is set in February.</p>	 Green
Review process	<p>The Council monitors the budget on a monthly basis, with a full report to Council. The report includes an updated projection of the year end position. This includes the Council's HRA position</p> <p>Capital and Revenue budgets are included and the report analyses any expected variances, together with any corrective actions identified.</p>	 Green
Responsiveness of the Plan	<p>Future income and the levels of future savings have been measured, , any scenario planning is only around what savings can be achieved. However the MTFP does set out the assumptions built into plans, and these are reasonable and in line with those of other council's. Cumulative savings of £2,045k are envisaged. The Council has identified £600k of the £970k needed for 2015/16. The Council has a good record historically of both meeting its plan and taking action to address unexpected outcomes.</p> <p>The Council monitors the budget on a monthly basis, any deviations, positive or negative, are addressed through an action plan, After quarter one for 2014/15 the council is predicting a small deficit for 2014/15.</p>	 Green

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Financial Governance

Area of focus	Summary observations	RAG-Rating
Understanding of the financial environment	<p>Management have a depth of understanding of the current financial environment, the budget, savings plans and MTFS are developed through the management team.</p> <p>The reporting of the Council's financial position and challenges is regularly discussed by management and reported through committee as part of budget reports and the MTFS.</p> <p>The Council has various sources of revenue. It has retained leisure and refuse and recycling services in house.</p> <p>The Council are aware of the statutory duties, these are a fundamental part of the budget setting.</p> <p>Each consideration of financial plans and monitoring is accompanied by a report that sets out the current financial background and managements expectations for the future.</p>	 Green
Executive & Member Engagement	<p>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>Budget timetable ensures that there is consultation with both stakeholders and staff.</p> <p>The Audit and Scrutiny Committees are challenging management on planning and reporting.</p> <p>However, there have been some challenges, externally and from within the Council, over its decisions and whether value for money is being achieved. This may suggest that some members and stakeholders currently do not feel engaged in the control and governance of the Council.</p>	 Amber
Overview for controls over key cost categories	<p>The budget, savings plans and MTFS are developed through the management team. Monitoring is on a monthly basis to members..</p> <p>The action plan in response to issues arising is monitored through management team.</p>	 Green
Budget Reporting (Revenue & Capital)	<p>monthly reporting to members includes the full budget, general fund, HRA and capital plans.</p> <p>The report analyses any expected variances, together with any corrective actions identified.</p>	 Green

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Financial Control

Area of focus	Summary observations	RAG-Rating
Budget setting & monitoring - revenue & capital	<p>The Council does not rely on one-off or short term gains.</p> <p>Identified savings are currently sustainable and there is no planned reliance on usable reserves to achieve savings plans.</p>	 Green
Savings plans setting & monitoring	<p>Savings plans are discussed ahead of each planning cycle. Meetings are held through the summer, Staff, members and other interested parties draw up a list of savings, these are discussed by management and members to ensure that they are realistic and achievable.</p> <p>The resulting plan is considered through committees, prior to setting a budget.</p>	 Green
External audit conclusions	<p>External audit have currently not raised any high priority recommendations over internal or financial controls in recent years.</p>	 Green
Finance department resourcing	<p>The Finance team has undergone a minor restructure in 2013 to ensure that the department has sufficient capacity to function effectively.</p> <p>As savings are achieved and resources become stretched, plans are always difficult to achieve, however, neither internal audit or external audit have raised significant control issues.</p>	 Green
Assurance framework/risk management processes	<p>Risk management and the assurance processes are continuing to develop.</p> <p>Risk management is routinely monitored and reported quarterly. The risks are discussed by members.</p> <p>The assurance framework, including the preparation of the Annual Governance Statement, has been reviewed and was found to be robust.</p>	 Green

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Prioritising Resources

Area of focus	Summary observations	RAG-Rating
Leadership and challenge in 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. Meeting the budget is monitored and reviewed by management team and subsequently by members.</p> <p>Corporate plan links to MTFs and the annual budget follows through. Regular reviews and monitoring ensure that the Council remains responsive</p> <p>Service managers are encouraged to find savings, including looking at alternative delivery methods. The Council has worked with other Council's (Torridge, North Devon and East Devon), Leisure services had been outsourced, however, the Council decided that the service gave best value being provided by the Council. Alternatives are always considered. These have been monitored and assessed.</p>	 Green
Consultation with key stakeholders	<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>Consultation includes staff. The newsletter allows opportunities for input. Department managers are encouraged to include staff in the identification of savings</p>	 Green
Basis for decision making	<p>Management team consider all proposals and ensure evidence and support is provided</p> <p>A cost/benefit analysis as the focus is on reducing spend, rather than service reduction. Few additional services have been planned.</p>	 Green
Understanding impact and outcome of decisions	<p>Management team consider the impact of cuts to ensure unintended consequences don't occur. Monitoring of the budget against actuals by management ensure that any significant effect is identified and addressed.</p> <p>Each Committee and PDG monitors its area of the budget to review the impact of plans.</p>	 Green

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Improving Efficiency & Productivity

Area of focus	Summary observations	RAG-Rating
Understanding costs	<p>The Council understands its costs and income streams. These are analysed in depth as part of the ongoing identification of savings. Some benchmarking is undertaken by finance and there is a quarterly performance report that focuses on targets and the Council's achievements.</p>	 Green
IT Systems and Data quality	<p>Neither Internal audit or the External auditor has raised concerns over the operation of the IT systems. Neither has there been any issues raised over the quality of the Council's data.</p>	 Green
Delivery of Savings and service re-design	<p>The Council has met its budget and exceeded its savings target in the past three years, and achieved its Identified savings. Future savings plans are focused on achievable outcomes.</p> <p>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.</p> <p>The Council has not used its reserves to fund its Revenue budget in 2013/14. In recent years the budget has always been achieved.</p>	 Green



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