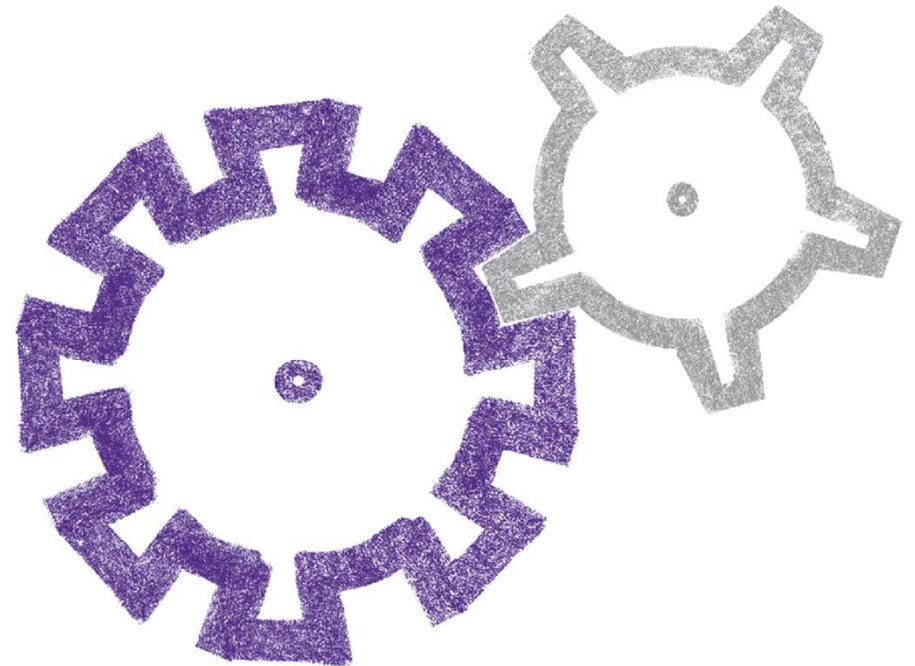


South Derbyshire District

Review of the Council's Arrangements for Securing Financial Resilience

September 2012



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Executive Summary

Our approach

Value for Money Conclusion

Under the Audit Commission's Code of Audit Practice we are required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion). Our work in this area includes a review to determine whether 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 with officers.

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:

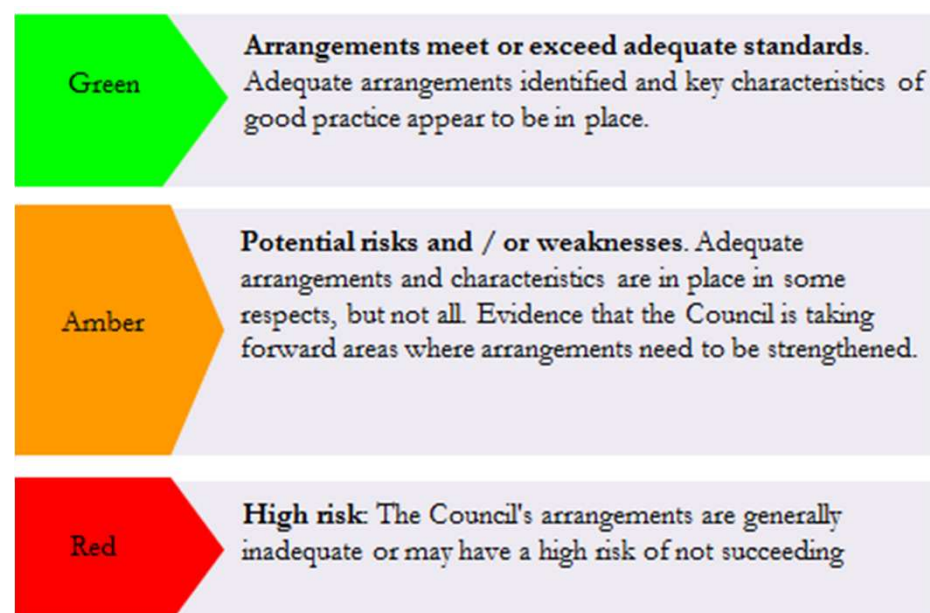
- Key indicators of financial performance;
- Its approach to strategic financial planning;
- Its approach to financial governance; and
- Its approach to financial control.

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

Our overall conclusion is that whilst the Council faces some significant risks and challenges during 2012/13 and beyond, its current arrangements for achieving financial resilience are adequate.

2011/12 is the second year of the four year Comprehensive Spending Review (CSR) period, where some of the potential risks and challenges over the medium term have yet to materialise. As a result, this report should be read in that context. Our assessment may change in future years.

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. The Department of Communities and Local Government (CLG) funding was reduced by 26% over that period.

The CSR represented the largest reductions in public spending since the 1920's. Revenue funding to local government will have reduced by 19% by 2014/15 (excluding schools, fire and police). After allowing for inflation, this equates to a 28% reduction in real terms with local government facing some of the largest cuts in the public sector. In addition, local government funding reductions have been frontloaded, with 8% cash reductions having been applied in 2011/12.

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 in other areas, such as car parking, where customers pay a fee or charge.





The Chancellor of the Exchequer, in his autumn Statement in November 2011, announced further public spending reductions of 0.9% in real terms in both 2015/16 and 2016/17. Financial austerity will therefore continue until at least 2017.

Local Context

South Derbyshire District Council is based in the East Midlands with a civic centre in Swadlincote surrounded by rural areas. The population is approximately 92,700. The impact of the challenging economic climate has been evidenced by rising unemployment. The Council has therefore been affected by spending cuts and reduced income within a landscape of increased demand for public services.

Executive Summary

Overview of Arrangements

Risk area	Summary observations	High level risk assessment
Financial Resilience		
Key Indicators of Performance	<p>The Council has reported a surplus of £725k against budget for the year ended 2011/12. The general fund balance also increased by £844k. The Council has identified that current reserve levels will sustain projected budget deficits until 2016/17 but recognises that this poses a significant risk to ongoing financial resilience.</p> <p>The Council has taken on £57.423m of debt relates to HRA self financing, securing low interest rates. Overall liquidity has improved on prior year.</p> <p>Sickness absence levels have risen in 2011/12. The Council should continue to monitor this area.</p>	 Green
Strategic Financial Planning	<p>The Council has robust arrangements in place for ensuring that the Medium Term Financial Plan (MTFP) is kept up to date to reflect its response to the continued challenges presented by funding cuts. The MTFP demonstrates a clear understanding of the current financial position and challenges ahead.</p>	 Green
Financial Governance	<p>The Council has good structures in place to support robust arrangements. The Council has a good understanding of its cost base that will be further enhanced through use of benchmarking tools in the future. There is key stakeholder involvement in the budget setting process.</p>	 Green
Financial Control	<p>The Council has made significant progress against issues identified in 2010/11. This has included the merger of the internal audit service with Derby City Council and the implementation of a new fixed asset register for financial reporting purposes. The finance department has continued to make use of consultants in 2011/12 to support financial reporting but is actively recruiting for permanent staff to increase long term stability.</p>	 Green

Executive Summary

Next Steps

Area of review	Key points for consideration	Responsibility	Timescale	Management response
Key Indicators of Performance	<ul style="list-style-type: none"> The Council is aware of the challenges ahead in respect of maintaining sufficient levels of reserves as austerity measures continue. Monitoring this in 2012/13 and beyond will be of paramount importance. 	Chief Finance Officer	Ongoing	<ul style="list-style-type: none"> Agreed. This will be continued.
Key Indicators of Performance	<ul style="list-style-type: none"> Sickness absence levels have risen in 2011/12 to an average of 9.3 days per FTE compared to 8.6 days in 2010/11. The Council should continue to monitor sickness absence levels closely. 	Director of Operations	Ongoing	<ul style="list-style-type: none"> We have liaised with the local Trade Unions to agree tightening of procedures, together with reviewing our current absence management policy. We will continue to focus on service areas where performance is weaker. Based on the most recent trends, the out-turn for 2012/13 is projected to be 8.7days.
Strategic Financial Planning	<ul style="list-style-type: none"> The Council will need to continue to carefully monitor the MTFP to ensure it adequately reflects the financial uncertainty and the scale of savings required. The use of scenario planning and updated assumptions will be key to ensure that the MTFP remains realistic. 	Chief Finance Officer	Ongoing	<ul style="list-style-type: none"> Agreed. This will be continued.
Financial Governance	<ul style="list-style-type: none"> The Council will need to increase its use of benchmarking to ensure that it understands its cost base compared to other district councils. This will enable it to be able to identify further efficiencies. 	Chief Finance Officer	Ongoing	<ul style="list-style-type: none"> Agree. This will be continued through the national VFM tool. It could be subject to review by the Council's Scrutiny Committee as part of their annual budget work.
Financial Control	<ul style="list-style-type: none"> The Council has brought the finance function back in house from June 2012. The Council has had to rely on consultant support in 2011/12 to support financial reporting but is actively recruiting to give itself long term stability, improve knowledge retention and provide greater resilience. 	Chief Finance Officer	Ongoing	<ul style="list-style-type: none"> The new structure for Financial Services was approved by the Finance and Management Committee on 6th September 2012. The final vacant post for a Financial Accountant has recently been filled.

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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
- Useable Reserves: Gross Revenue Expenditure
- Long term borrowing to tax revenue
- Long term borrowing to long term assets
- Sickness absence levels
- Out-turn against budget

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




Staffordshire Moorlands District Council
Hinckley and Bosworth Borough Council
Selby District Council
South Staffordshire Council
Lichfield District Council
South Ribble Borough Council
High Peak Borough Council
Newark and Sherwood District Council
Chorley Borough Council
North Warwickshire Borough Council
Amber Valley Borough Council
East Northamptonshire Council
West Lindsey District Council
Daventry District Council
Kettering Borough Council

Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Performance Against Budget	<ul style="list-style-type: none">The Council reported a £795k surplus against budget for 2011/12 on net expenditure of £14.952m (in 2010/11 the surplus was £94k). The surplus was achieved in largely equal measures from increased income and lower costs. Capital expenditure for the year was £4.231m, lower than the £5.078m estimate due to planned activity on council house improvement and leisure and community schemes being moved into 2012/13. All outstanding budgets have been carried forward into 2012/13.The Council achieved efficiency savings of £1.7m in 2011/12 through its corporate services contract. These were largely driven by service reviews across the Council and the implementation of actions arising from these.	 Green
Reserve Balances	<ul style="list-style-type: none">The general fund balance increased by £844k. This included a transfer of £515k from earmarked reserves to match against related expenditure in the year.The general fund balance at 31 March 2012 stands at £3.835m which exceeds the MTFP target of holding a minimum of £1m in reserves.The Council has identified that its current reserve levels can sustain projected budget deficits in the MTFP until 2016/17. However, it has also noted that reliance on reserves to fund recurrent expenditure carries significant risk to the Council's ongoing financial resilience.	 Green

Key Indicators

Area of focus	Summary observations	Assessment
Liquidity	<ul style="list-style-type: none"> Cash held at the year end was £2.835m. The balance is slightly lower than the £3.266m held at 31 March 2011, that included £5m of short term borrowing drawn before the year end. This was paid back in early 2011/12 and no additional short term borrowing have been taken out in 2011/12. Overall liquidity levels have improved on prior year. The cash balance at 31 March 2012 includes £3m received from the Council's share of the sale of Bretby Crematorium. 	 Green
Borrowing	<ul style="list-style-type: none"> At year end the Council had £58.815m of debt, of which £57.423m related to HRA self financing, effective from 1 April 2012. The HRA debt has been taken out with the Public Works Loan Board for a period of 30 years in line with the Council's 30 year plan. The Council was able to secure advantageous interest rates due to low market and the Government securing a discount for councils affected. A significant portion of this debt was secured at fixed rates. The Council follows the CIPFA Code of Practice on Treasury Management in Public Services and the Prudential Code for Capital Finance. Its policy has been to adopt a cautious approach to borrowing given the continued uncertainty in the economy and associated risk with treasury activity. 	 Green
Workforce	<ul style="list-style-type: none"> Following the 2010/11 accounts process, the Council decided to bring the finance function back in house. This became effective in June 2012. The Council has subsequently recruited a management accountant and is in the process of recruiting a financial accountant to rebuild a previously depleted team. This will create greater workforce resilience in this service area and should largely negate the need for continued support from consultants, which have been required during 2011/12. The Council has continued to monitor sickness absence rates. In 2011/12 sickness absence was on average 9.3 days per FTE which is higher than the 2010/11 average of 8.6 days. This has included some officers on long term sickness. The Council should continue to monitor this area closely. 	 Green

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Strategic Financial Planning




Key indicators 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 (MTFS)

Area of focus	Summary observations	High level risk assessment
Focus of the MTFS	<ul style="list-style-type: none">The Council has a MTFS which is refreshed when required to reflect the current economic and financial environment.The MTFS does not cover a particular timeframe but rather sits alongside the MTFP to outline the overarching financial strategy of the Council.	 Green
Scope of the MTFS and links to annual planning	<ul style="list-style-type: none">The MTFP covers a five year period and is refreshed at least annually to take into account changes that have arisen since the last review.The MTFP includes a section on risk that highlights potential challenges that the Council may face in achieving the budget and associated savings plans. These demonstrate a clear understanding of the financial position of the Council.Stakeholders are consulted as part of the budget planning process.The Corporate Plan is linked to the MTFP. Targets flow through service plans into individual officers' Personal Development Plans to ensure delivery and resource at all levels within the Council staff structure.	 Green
Adequacy of planning assumptions	<ul style="list-style-type: none">The Section 151 Officer has made improvements to the process for setting assumptions to improve accuracy in the MTFP. This is aided by the use of scenario planning to assess the impact of potential fluctuations in the economic landscape and the sensitivity of these assumptions.The MTFP has a medium term planning horizon, taking the Council to 2016/17 but not beyond due to the significant uncertainty preventing meaningful planning taking place.	 Green

Strategic Financial Planning

Medium Term Financial Strategy (MTFS)

Area of focus	Summary observations	High level risk assessment
Review processes	<ul style="list-style-type: none">Progress against budgets is monitored monthly by senior management.Northgate provide a monthly performance report that includes details of their progress against saving plans. This is distributed to the senior management team for review.Member scrutiny is performed by Finance and Management Committee.	 Green
Responsiveness of the Plan	<ul style="list-style-type: none">The Council has considered, reviewed and articulated the risks of non achievement of budget and savings targets in the MTFP.The Council's senior management continue to monitor the progress of efficiency measures.The MTFP is reviewed regularly to ensure that it reflects the current challenges faced by the Council.	 Green

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Financial Governance

Key indicators 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	High level risk assessment
Understanding the Financial Environment	<ul style="list-style-type: none"> • There have been no significant controls issues raised by internal audit in relation to the financial environment. • The Council continues to take a long term approach to efficiency planning. This is made possible by having a strong understanding of both internal and external factors affecting the Council. • The Council has a dedicated Business Improvement Team through its Strategic Partnership with Northgate. This is overseen by a Business Improvement Board to ensure efficiencies are delivered. As part of this overarching transformation, every service area is being reviewed and potential efficiencies identified. 	 Green
Executive and Member Engagement	<ul style="list-style-type: none"> • Departmental managers devise budgets for their departments as part of the budget setting process. These are then compiled into the service line budgets. Front line staff have input throughout the process, for example through the staff forum. • Key external stakeholders are consulted as part of the budget planning process. • In 2009/10 SOLACE carried out a review of the Council's corporate governance arrangements which stated that the Council had all the necessary documents, processes and structures in place to support good corporate governance. The Council developed an action plan as a result of this review to improve arrangements, with Audit Sub Committee monitoring implementation. • The Council continues to provides training for members and officers to ensure that they are clear about their roles and responsibilities. 	 Green
Overview for controls over key cost categories	<ul style="list-style-type: none"> • The Council intends to use the Audit Commission's value for money profiling tool to inform budget setting. in the future. This will enhance understanding of the Council's own cost base. • The Council has used zero-based budgeting in some service areas for 2012/13 and intends to extend this further in future years. 	 Green

Financial Governance

Area of focus	Summary observations	High level risk assessment
Review of accuracy of Committee/Cabinet Reporting	<ul style="list-style-type: none">• The Council produces a financial monitoring report quarterly for review by the Finance and Management Committee.• The financial reporting is designed to help officers and members identify issues and includes:<ul style="list-style-type: none">➤ a high level summary of the current position against budget supported by detailed appendixes➤ an update on the year end forecast position➤ a review of capital expenditure against budget➤ treasury management updates.	 Green
Performance Management of Budgets	<ul style="list-style-type: none">• Budget monitoring is used to ensure that early identification of issues is achieved. The Council recognises that this is imperative to managing the continued challenges in the economic environment.	 Green

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Financial Control

Key indicators 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.

Finance Department

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




Financial Systems

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

Internal Control




- Strength of internal control arrangements - 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 is how business risks are managed and controlled.
- The Annual Governance Statement gives a true reflection of the organisation.

Financial Control

Area of focus	Summary observations	High level risk assessment
Performance Management of Budgets	<ul style="list-style-type: none"> As noted previously, the Council reviews its progress against budget monthly, with quarterly reporting made to members for further scrutiny. This ensures that officers are held accountable for the financial performance of their service areas. Relevant performance information is reported to officers and members on a quarterly basis to manage performance and shape service delivery to respond to declining performance levels. Trend data is highlighted and the Council uses this information to shape decisions regarding service delivery. Budget processes involve a review of all service areas to identify efficiencies, rather than just focussing on high cost areas. Each service line develops its own plan therefore ensuring full coverage of all departments. 	 Green
Performance against Savings Plans	<ul style="list-style-type: none"> To date the Council has had a good track record in relation to meeting savings targets despite the challenges presented by austerity measures. In 2011/12 the Council delivered £1.704m of efficiency savings and has already made progress against its 2012/13 target. Progress against efficiency targets is monitored monthly by senior management to ensure active monitoring of delivery. 	 Green
Finance Department resourcing and qualifications / experience	<ul style="list-style-type: none"> Following the 2010/11 accounts process, the Council has brought the finance function back in house. This was effective from 1 June 2012. The Chief Finance Officer and Financial Services Manager are CCAB qualified accountants. The Chief Finance Officer has been with the Council for a number of years and has significant local authority experience. The Council has reviewed the structure of the finance team and is currently in the process of recruiting additional resource to provide further resilience. There has been a reliance on consultants in 2011/12, particularly around the financial statements process, however the recruitment of additional permanent staff should allow the Council to reduce costs in this area, improve resilience and provide longer term stability. 	 Amber

Financial Control

Internal and external assurances

Area of focus	Summary observations	High level risk assessment
Summary of key financial accounting systems	<ul style="list-style-type: none"> In 2011/12, a new Finance system was implemented. This platform should provide opportunities for enhanced and more efficient finance reporting. The financial statements and the Council's internal management accounts are reconciled which ensures both internal and external financial information is reported consistently. Summary accounts are also produced. The Council has developed a new Excel based fixed asset register to produce figures to support the statement of accounts. This provides a clear audit trail between the register and finance system, which proved difficult with the previous system. 	 Green
Internal audit arrangements including compliance with CIPFA Code of Practice for Internal Audit	<ul style="list-style-type: none"> The Internal Audit function merged with Central Midlands Audit Partnership in January 2012. A number of audit files, supporting reports issued by the legacy internal audit service, have been misplaced. This has been acknowledged in the Head of Internal Audit's Opinion for 2011/12. Internal audit planning has moved to a more risk based approach from 2012/13 which will place more emphasis on areas of strategic importance going forward. The new partnership has provided access to a greater breadth and depth of skills that should enhance the effectiveness of the service. No areas of limited assurance were identified by internal audit in 2011/12. 	 Amber
External audit arrangements and programme of activities	<ul style="list-style-type: none"> The main points from the most recent Annual Audit Letter noted that the Council should take action in 2011/12 to further it arrangements to <ul style="list-style-type: none"> ➤ maintain its continued attention to the overall financial position and the quality of services that it provides ➤ ensure the Finance department has sufficient capacity to deliver a set of financial statements on a timely basis that are fit for purpose ➤ ensuring that, working in partnership with Northgate Public Services, it develops an asset register which is fit for purpose ➤ ensuring that, working in partnership with Derby City Council, it provides a robust Internal Audit function. As noted within this report, the Council has made good progress in addressing these issues in 2011/12. 	 Green



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