

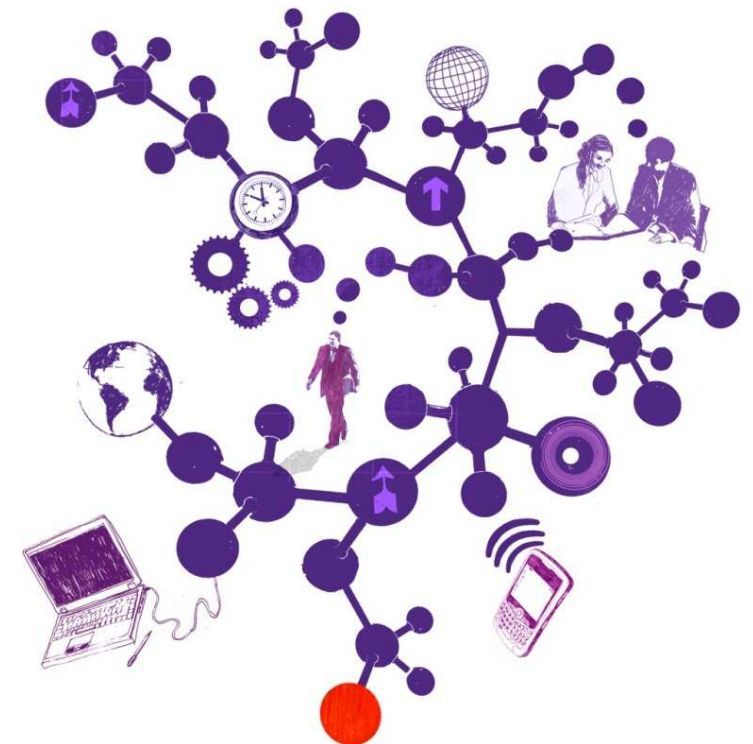
Report on Value for Money for West Devon Borough Council

Year ended 31 March 2014

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Contents

01 Introduction Page 03

02 Executive Summary Page 05

03 Key Indicators of Financial Performance Page 08

04 Strategic Financial Planning Page 13

05 Financial Governance Page 14

06 Financial Control Page 15

07 Prioritising Resources Page 16

08 Improving Efficiency & Productivity Page 17

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 complements 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

The Comprehensive Spending Review covering 2015/16 included a number of announcements which impact upon the Council's budget for 2015/16 and beyond. These are summarised below:

- Although it is widely reported that Local Government funding overall will fall by 10% in 2015/16, the DCLG has provided indicative figures which show that in reality, West Devon's government funding will reduce by about 15.5% - this is due to a number of 'top slices' that the Government will make to provide pots of funding for specific areas mostly in the area of social services.
- Council Tax Freeze Grant for 2015/16 was equivalent to a 1% increase. The Council tax referendum threshold remains at 2% for 2014/15 and 2015/16.
- In 2015/16, a £400m top slice of New Homes Bonus will part fund a £2bn economic growth pot for Local Enterprise Partnerships (LEPs) – this will significantly reduce the Council's New Homes Bonus grant from 2015/16 onwards

The Council's gap for 2014/15 is £760k, and for the four years to 2017/18, the cumulative gap is £2.3m. This unprecedented level of reductions is the key reason that achieving value for money is critical to the Council's future plans. The T18 programme being progressed with South Hams District Council is fundamental to the achievement of plans

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 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:

- Key performance indicators
- Strategic financial planning
- Financial governance
- Financial control.

Overall our work highlighted that the Council underspent its budget in 2013/14 by £170k, and has demonstrated that it can achieve its savings targets. The Council's forward-looking financial plan recognises the need for substantial future savings, which will be achieved through the delivery of the T18 transformation programme with South Hams District Council.

The Council has areas of spend, such as housing benefit administration, economic development and planning services, that appear high in comparison with similar councils. This is based on the Value for Money Profile from the 2012/13 accounts. The Council is aware of these through its use of the SPARSE benchmarking and is investigating the reasons for these difference and the scope for any savings.

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 that the Council has:

- prioritised its resources to take account of the tighter constraints it is required to operate within; and
- is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

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 a relatively low level of usable reserves. Although this is in accordance with the Council's plans, it does leave the Council vulnerable should it not achieve its planned savings.	Amber
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 processes for risk management. However, the revised structure under the T18 programme is, as yet, untested.	Green
Financial Control	Financial control is good. The Council has a history of achieving or exceeding its budgets. However, the recent re-structure of the finance department will see the joint financial systems being controlled with a reduced establishment.	Green
Prioritising Resources	The Council plans to prioritise its use of resources through the successful implementation of the T18 programme, together with South Hams District Council.	Green
Improving Efficiency & Productivity	The successful delivery of the T18 programme should achieve greater productivity and lead to more efficiency across both Council's	Green

Executive Summary

Next Steps

Area for consideration	Recommendation	Responsibility	Timescale	Management response
Financial Governance	The new structure under the T18 joint arrangements is untested. Appropriate monitoring arrangements need to be implemented to ensure that effective governance is maintained.	S151 Officer	On-going monitoring throughout the year	The new structure for Support Services has been in place since 29 September 2014. The S151 Officer will ensure that regular reports are presented to Members at the Resource Committee, the Audit Committee and Full Council meetings, in accordance with the normal timetable.

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

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






Babergh District Council
Craven District Council
Derbyshire Dales district council
Eden District Council
Forest of Dean District Council
Hambleton District Council
Malvern Hills District Council
Melton Borough Council
Mid Suffolk District Council
North Dorset district council
Ribble Valley District Council
Ryedale district Council
South Hams District Council
South Norfolk District Council
Tewkesbury Borough Council

Key Indicators of Financial Performance

Area of focus	Summary observations	Assessment
Council Tax collection	Council tax collection rate was 97.8% in 2013/14 which is an increase on 2012/13.	 Green
NDR collection rates	NDR collection rates were 99.2% in 2013/14 which is also an increase over 2012/13.	 Green
Workforce	<p>The number of days lost to sickness have fallen for 2013/14 Long term sickness has fallen by 69% and is now at the typical level following an increase in 2012/13. Short term sickness has been managed and this has resulted in a reduction of just over 50% from 2012/13.</p> <p>Sickness levels 2012/13 10.32 days per FTE 2013/14 3.93 days per FTE</p>	 Green
Performance against budgets (Revenue Capital & Savings)	<p>The Council underspent its budget in 2013/14 by £170k, and has demonstrated that it can achieve its savings targets. In 2013/14 the Council spent £490k on capital projects against the budgeted spend of £1,480k, the underspend resulted from lower spending on indoor sports and leisure facilities, affordable housing and improvement grants. The capital monitoring report identified that these capital budgets would not be spent in 13/14 and would be carried forward to 14/15.</p>	 Green
Reserves balances	<p>General Fund Revenue Reserves have decreased by £77k, and stand at £953k. This is a level which is considered prudent by the Council and represents over one month of continuing operations. The Medium Term Financial Strategy recommends a minimum level of general fund reserves of £750k</p> <p>Earmarked reserves at the 31 March 2014 were £1,930k having been increased by the contribution to the T18 reserve of £800k to cover the Council's investment into the T18 programme. In addition the Council has £0.743m in a capital receipts reserve which is available to fund future capital expenditure.</p>	 Green

Key Indicators







Audit Commission Key ratios – Overview

Area of Spend	2013/14	2012/13	Average 2012/13	Commentary	Assessment
Working capital ratio	2.25	2.43	3.78	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	£953k	£1,043k	£1,599k	General fund balance is low compared to the average, although the balance represents 34 days expenditure on services.	 Amber
Usable reserves to Gross revenue expenditure	12%	8%	27%	The Council increased its Earmarked reserves in 2013/14 to provide investment into the T18 programme. Although the Council's reserves remain well below the average.	 Amber
Usable capital receipts	£743k	£1,055k	£3,692k	The council has a low level of usable capital receipts.	 Amber
Long term borrowing to tax revenue ratio	0.22	0.25	1.78	The council has a small amount of external debt. Which is easily covered by its tax revenues annually.	 Green

Source – Audit Commission Key ratio profiles

Key Indicators






Audit Commission VfM profile – Overview

Area of Spend	2012/13	Average 2012/13	Quartile	Commentary	Assessment
Total net spend per head	407.16	340.18	Q4	Spending per head of population is above the average. The Council's T18 programme should deliver savings against the net spend.	 Amber
Spend on council tax benefits and housing benefits administration per head	20.58	10.27	Q4	West Devon's costs of collection exceed the family average. This indicator is based on 2012/13 data and the costs of administration has reduced for 2013/14, The T18 programme will continue to make further savings and reductions	 Red
Spend on culture and sport	16.64	31.10	Q1	As for most Devon districts, spending on leisure, culture and sport is below average. This reflects the nature of the area and the availability of alternative leisure opportunities.	 Green
Environmental services	44.64	42.45	Q3	Average costs of net service provision.	 Green
Housing Services	14.42	11.42	Q2	Homelessness is increasing, but costs remain close to average for the family group.	 Green
Sustainable economy	60.13	47.38	Q4	This represents a corporate priority, so spend is in line with expectation.	 Amber

Source – Audit Commission Value for Money profiles






Key Indicators

Audit Commission VfM profile – Financial Resilience





Indicator	2012/13	Average 2012/13	Quartile	Commentary	Assessment
Council Tax requirement	5,279k	5,529k	Q2	Requirement is falling and is below the Group average.	 Green
Income from Sales, Fees and charges as a % of total spend	7.5%	16.9%	Q4	This includes planning, leisure and transport related income. Income is below the average as the Council contracts out its leisure services and therefore does not collect the income direct.	 Amber
Reserves as a % of net current expenditure	7.7%	24.9%	Q4	The level of reserves are relatively low, but above the minimum level determined by the Council.	 Amber
Spend on management and support	22.8%	49.3%	Q2	The Council's spend on management is less than the average.	 Green
Net spend on Council tax collection per head	3.62	4.52	Q1	Costs of collection are above average.	 Amber

Source – Audit Commission Value for Money profiles







Strategic Financial Planning

Area of focus	Summary observations	RAG-Rating
Focus of the MTFP	The MTFP is in place and the funding gap is identified and monitored. Options are explored during the budget setting process. These do consider degrees of delivery, The MTFS provides a financial framework for the Council's strategic planning and decision making, it incorporates key factors such as the changes in Government funding, spending plans and the level of savings that are likely to be needed to keep Council Tax affordable.	 Green
Adequacy of planning assumptions	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. Options are explored during the budget setting process but these do consider degrees of delivery, true scenario planning would estimate the effects of parts of the proposed savings plan not occurring. The Council will consider this as part of the process in setting out the future MTFP's.	 Amber
Scope of the MTFP and Links to Annual Planning	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 and 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.	 Green
Review process	<p>The Council monitors delivery on a quarterly basis, with a full report to Council. The report includes an updated projection of the year end 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	The plan is updated annually. The annual budget is monitored and flexed at each quarterly update.	 Green





Financial Governance

Area of focus	Summary observations	RAG-Rating
Understanding of the financial environment	<p>The annual financial planning process involves members. The reporting of the progress and results are explained to members as part of the reporting progress. Members receive some financial training.</p>	 Green
Executive & Member Engagement	<p>Members of the Management team attend full Council and relevant committees (e.g. Audit Committee and Resources Committee), and financial detail is timely and accurately presented .</p> <p>The MTFP is presented to full Council, following the discussion by the Resources Committee. Members and officers are consulted on the identification of savings.</p> <p>The new structure under the T18 joint arrangements is untested. careful monitoring is needed to ensure the arrangements continue to deliver effective governance.</p>	 Green
Overview for controls over key cost categories	<p>The leadership team are aware of current financial position and future implications as covered in key reports. Quarterly monitoring of the financial position demonstrates that there is control over costs and income.</p> <p>The Council makes use of SPARSE data and as a rural authority are aware of the higher costs of delivering services.</p>	 Green
Budget Reporting (Revenue & Capital)	<p>The Council monitors delivery on a quarterly basis, with a full report to Council. The report includes an updated projection of the year end position.</p> <p>Capital and Revenue budgets are included and the report analyses any expected variances, together with any corrective actions identified.</p>	 Green




Financial Control

Area of focus	Summary observations	RAG-Rating
Budget setting & monitoring - revenue & capital	<p>The MTFP is monitored on a quarterly basis, with a full report to Council. The report includes an updated projection of the year end position.</p> <p>Capital and Revenue budgets are included and the report analyses any expected variances, together with any corrective actions identified.</p>	 Green
Savings plans setting & monitoring	<p>Savings identified are all continuing, there are no items of a one-off nature. Cash flow is not a part of the Financial projections. However short term finance is available to cover any cash flow fluctuations. Long term savings are being driven by the T18. transformation programme.</p>	 Green
Adequacy of Internal audit arrangements	<p>As part of the re-structuring process, Internal Audit management has been outsourced to the Devon audit partnership from October 2014. This has ensured the continuity of the in-house audit team, whilst achieving some savings, as anticipated by the T18 stage 1 plan.</p>	 Green
External audit conclusions	<p>External audit have not raised any high priority recommendations over internal or financial controls in recent years.</p>	 Green
Finance department resourcing	<p>The council is currently re-organising the Finance department to cover the joint provision of services with South Hams District Council. This is part of T18 project, which has re-engineered all the processes. Appointments have been made and the process of relocating and integrating the provision is underway. The merged department will see the joint financial systems being controlled with a reduced establishment.</p>	 Green
Assurance framework/risk management processes	<p>Risk management is reported to the Audit committee on a regular basis and is 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

Prioritising Resources

Area of focus	Summary observations	RAG-Rating
Leadership and challenge in prioritising resources	<p>Members have received a series of reports on 'Meeting the Financial Challenge' and following approval of 2013-14 budget, immediately started work on developing the strategy to close the budget gap from 2014-15 onwards. T18 project empowers management and leaders to change the way the Council (and South Hams) operates to achieve large savings across South Devon. The project has started and the phase 1 has begun with 30% reduction in finance staff."</p> <p>T18 demonstrated a wide ranging challenge to both councils deliverance of all services. Monitoring gives opportunities to flex the plan depending on changing circumstances. Although there is no benchmarking to judge activity, feedback from services is used to measure success of plans."</p>	 Green
Consultation with key stakeholders	<p>The savings exercise was done with extensive input at service level. Managers and their staff had to buy into the process in order to achieve the outcomes. This will be tested over the various phases of the T18 project.</p>	 Green
Basis for decision making	<p>Key partnership is with South Hams DC and the agreed T18 project is based on a thorough understanding of the resources available for both Councils. The Council does not plan to rely on quick fixes or one-off savings to bridge the budget gap. The T18 Programme has been set up to ensure sustainable delivery of services in, whilst achieving the necessary level of savings.</p>	 Green
Understanding impact and outcome of decisions	<p>T18 is being monitored closely and any unintended consequences should be identified early. Appropriate actions will be undertaken to address any issues. The quarterly performance and Revenue and Capital budget monitoring reports detail current position and the impact of the Council's decisions.</p>	 Green

Improving Efficiency & Productivity

Area of focus	Summary observations	RAG-Rating
Understanding costs	<p>The Council makes use of SPARSE data and as a rural authority is aware of the higher costs of delivering services. The Council has visited other Councils with significant shared services such as Vale of White Horse to carry out specific benchmarking. Whilst there are no systematic comparisons made by the Council, it is part of the SPARSE network and uses the data that is produced to measure its services.</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 achieved its Identified savings over the last three years. Future savings plans on achievable outcomes. The T18 project covers the efficiency plan savings which are identified and quantified. Monitoring reports are delivered regularly to Committees and the Resources Committee.</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> <p>The T18 programme is viewed as the primary driver to achieve the savings required by the Council. The organisation transformation is calculated to deliver 30% of the net revenue budget for both council's.</p>	 Green



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