

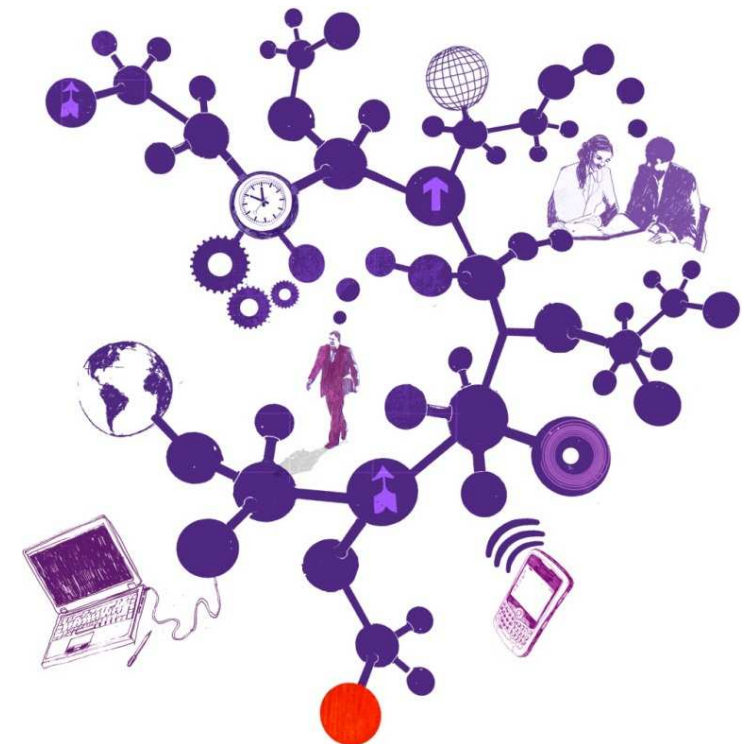
Report on Value for Money for South Hams District Council

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 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 2014/15 and what that says about those arrangements
- any significant risks that we have identified.

Introduction

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 – was announced in this Autumn's Spending Review.

Locally

All Councils have faced large reductions in Government funding since the Comprehensive Spending Review 2010. By the end of 2015/16, the Council's grant funding (Revenue Support Grant) will have reduced by over 40% from 2013.

The Council, along with West Devon Borough Council, has used the Transformation Programme (T18) to adopt a pro-active approach to delivering savings. The aim was to ensure that both Councils were able to deliver quality services for their customers and communities. An investment budget of £4.6 million was approved to deliver annual recurring revenue savings of £3.3 million. The payback period for the Programme is 2.5 years. The T18 programme has received the backing of Central Government with an award of £700k of central funding to help pay for some of the initial investment, South Hams share being £434k .

Although this report focuses on the position at September 2015 where the MTFs covered the period to 2018/19, the Council has subsequently agreed its Medium Term Financial Strategy (MTFS), in October 2015, for the five years to 2020/21. This projects a budget surplus over the five years of £266k. This shows the Council is not complacent with its recent achievements and continues to focus on delivering a strong financial future for the council.

There are significant uncertainties to face; further uncertainty over government cuts, business rate retention and continuing limits on Council Tax increases. The Council considers it has taken a cautious approach to these uncertainties.

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 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.

The Council reported a surplus of £34k for 2014/15. Whilst this comprises a number of over and underspends, notably:

- increased income from planning activities of £440k
- increased waste disposal costs of £123k
- settlement of a national legal claim of £114k, and
- losses from the Dartmouth Ferry being out of action of £153k

the outturn reflects good financial planning and robust monitoring throughout the year.

Usable reserves at 31 March 2015 were £7.9m and the Council has £4.5m of usable capital receipts. The General Fund balance was £1.7m against an approved minimum level of £1.5m.

The Council's medium term financial strategy, presented in September 2014, for the four years to 31 March 2019 identifies a cumulative funding gap of £14k, assuming the savings from the T18 programme are all realised.

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.

The Council's plans prioritise its resources reflecting the financial constraints. The T18 programme has been built upon the re-structuring of all the Council's activities which aims to ensure that all parts of the organisation are focussed on delivering services efficiently.

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 2013-14	High level risk assessment 2014/15
Key Indicators of Financial Performance	<p>Savings plans have been delivered. The Council made a surplus of £34k after funding the redundancy costs and other T18 costs. The cumulative gap in funding to meet expenditure over the four years to March 2019 is £14k (September 2014 position).</p> <p>Financial ratios are good, below the nearest neighbour average, but not significantly.</p> <p>Usable reserves are £7.9m (15% of gross expenditure)</p> <p>The cumulative gap in the funding to meet expenditure over the next 4 years is £14k</p>	Amber	Green
Strategic Financial Planning	<p>The Council updated its Medium Term Financial Strategy in September 2014, and has subsequently updated in October 2015. The plans are well progressed with savings achieved through the restructure of the Council's workforce.</p> <p>The Council is not dependent on one-off budget fixes or asset sales, nor does it have unsustainable income streams.</p> <p>The majority of redundancies have been made as part of stage 1a and 1b of the restructuring programme, and accounted for in 2014/15. The costs were met from accumulated reserves, savings from the T18 programme and from a Government grant.</p> <p>The Council needs to continue to monitor its service delivery to ensure that appropriate levels of service are maintained.</p>	Green	Green
Financial Governance	<p>The financial position is monitored quarterly. Reports focus on current position and link to the future financial pressures.</p> <p>The Council does some benchmarking of its costs.</p> <p>The S151 officer has unfettered access to the management team and is fully aware of decisions being taken, including financial implications.</p> <p>Quarterly balanced scorecard monitors delivery of key performance indicators.</p>	Green	Green

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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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 Budget setting process does not rely on one-off fixes to achieve the projected funding gap.</p> <p>South Hams (with West Devon) plans to deliver its longer term savings plans through the T18 project. Both groups of members receive quarterly updates on the programme and the financial position.</p>	Green	Green
Prioritising Resources	<p>The T18 program has focused management and members on the need to achieve the levels of savings projected.</p> <p>T18 project empowers management and leaders to change the way the Council (and West Devon) operates to achieve large savings across both councils.</p> <p>Service cost and delivery are considered and the impact is measured across the balanced scorecard in the Performance report.</p>	Green	Green
Improving Efficiency & Productivity	<p>Benchmarking is done through the use of statistics provided by Sparse. Areas of high spend were highlighted in 2013/14. The council recognised these at the time. The Audit Committee requested a detailed response from management to explain the Council's position. These were provided in a report to the Audit Committee on 12 March 2015.</p> <p>The Council has achieved its savings target in 2014/15. There is a small underspend of £34k. The Medium Term Financial Strategy has identified a funding gap of £14k over the four years to 31 March 2019 (September 2014 position).</p> <p>There have been no reports or inspections which have identified areas where services are failing.</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	Summary observations for 2014/15	RAG-Rating 2013/14	RAG-Rating 2014/15
Council Tax collection	Council tax collection rate was 98.3% (2013/14 -98.8%) in 2014/15 which represents a marginal decrease against the previous year. This reflects the change in arrangements for Council Tax Benefit.	Green	Green
NDR collection	NDR collection rates for 2014/15 were 98.6% (98.6% in 2013/14) which is consistent with 2013/14. This represents a good performance against a difficult financial climate.	Green	Green
Workforce	The Council's quarterly performance report shows that the average days short term sickness per full time employee remains within the Council's target level. In 2014/15 the Council had an average of 10.21 days per FTE (2013/14 10.4). Long term sick days have fallen but still represent 65% of total sickness.	Green	Green
Performance against budgets (Revenue Capital & Savings)	The surplus on the General Fund of £34k is an improved position against 2013/14 (deficit of £127k). This represents a positive outcome given the shortfall in income on the Dartmouth Ferry (£153k), an increase in disposal costs and tipping charges for Trade Waste (£123k) and the settlement of a national legal claim (£114k), which were offset by additional income from planning applications due to a number of large applications for renewable energy (£440k).	Green	Green
Reserves balances	Usable reserves have reduced by £2.46m from the preceding year and stand at £7.9m at 31 March 2015. This is due to the Council financing the investment costs for the Transformation Programme in 2014/15, where funding was set aside in previous years. Capital reserves are represented by capital receipts and capital contributions unapplied. The balance at 31 March 2015 amounts to £4.8m compared to £4.6m at the end of the previous year.	Green	Green

Key Indicators of Financial Performance

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Area of focus	2014/15	2013/14	Commentary (spend per head of population)	RAG-Rating 2013/14	RAG-Rating 2014/15
Working capital ratio	2.55	4.03	Proportion of current assets to current liabilities. The Council has cover for its current liabilities, although this has reduced as a result of the year end creditor to West Devon arising from the T18 costs.	Green	Green
General Fund Balance	£1,741k	£1,707k	General fund balance (Un-earmarked Reserves) is low compared to the average of other Council's (£2,821k), but is in line with Councils target balance of £1,500k. The Council also has £6,166k of earmarked reserves.	Amber	Amber
Usable reserves to Gross revenue expenditure	0.25	0.31	The Council increased its earmarked reserves in 2013/14 to provide investment into the T18 programme. These were used, as planned, in 2014/15. The Council's usable reserves remain above that of its nearest neighbours.	Green	Green
Usable capital receipts	£4,463k	£4,497	The Council has a healthy level of usable capital receipts. This will allow the Council to continue to fund its capital plans over the foreseeable future.	Green	Green
Long term borrowing to tax revenue ratio	0	0	The Council is debt free.	Green	Green

Source – Audit Commission Key ratio profiles

Key Indicators of Financial Performance

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The figures from the Audit Commission profiles are for 2013/14. The updated tables are expected in early January

Area of focus	2013/14	2012/13	Average 2013/14	Commentary (spend per head of population)	RAG-Rating 2013/14	RAG-Rating 2014/15
Total net spend per head	403.53	407.95	379.30	Total net spend per head has come down by 1% to £403.53 which remains above the District Council average net spend for 2013/14 of £379.30. Although spending per head of population is above the average, the Council's T18 programme should deliver savings against the net spend.	Amber	Amber
Spend on council tax benefits and housing benefits administration per head	16.43	16.15	11.17	The Council's costs of collection exceed the family average. However, as reported to the Audit Committee on 12 March 2015, net spend on Housing benefit and Council tax benefit administration has reduced considerably (42%) in 2014/15 and is now below average when compared to other district councils. South Hams net spend was £6.18 per head in 2013/14 compared to the district average of £6.45. The T18 programme will continue to deliver further savings and reductions.	Red	Amber
Spend on culture and sport	25.11	24.37	38.14	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	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

Amber

Adequate arrangements, with areas for development

Red

Inadequate arrangements

The figures from the Audit Commission profiles are for 2013/14. The updated tables are expected in early January

Area of focus	2013/14	2012/13	Average 2013/14	Commentary (spend per head of population)	RAG-Rating 2013/14	RAG-Rating 2014/15
Environmental services	59.30	55.44	47.49	In a recent review of the South Hams waste service, savings/income streams were identified which will start to decrease the cost per household. Further work is planned which should lead to a further decrease in costs.	Red	Amber
Housing Services	15.44	12.15	13.24	Spending on housing services is 16% above the average for its family group.	Green	Green
Sustainable economy	100.66	91.96	62.25	This represents a corporate priority, so spend is in line with expectations.	Amber	Amber

Source – Audit Commission Value for Money profiles

Key Indicators of Financial Performance

The figures from the Audit Commission profiles are for 2013/14. The updated tables are expected in early January

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 2013/14	RAG-Rating 2014/15
Council Tax requirement	£6,601k	£6,860k	£7,053k	Requirement is falling and is below the Group average.	Green	Green
Income from Sales, Fees and charges as a % of total spend	37.14%	29.84%	25.96%	This includes planning, leisure and transport related income. Income is above the average.	Green	Green
Spend on management and support	Not recorded	49.6%	42.7%	In 2012/13 The Council's spend on management was above average. However since then, the Council has implemented its T18 Programme and a Senior Management Review which has delivered savings of £350,000 across both Councils.	Green	Green

Source – Audit Commission Value for Money profiles

Strategic Financial Planning

Area of focus	Summary observations for 2014/15	RAG-Rating 2013/14	RAG-Rating 2014/15
Focus of the MTFP	<p>The Council updated its MTFS in September 2014, and has subsequently updated in October 2015, and relies upon the successful implementation of the T18 programme. The large majority of redundancies have been made as part of stage 1a and 1b, and accounted for in 2014/15, which has ensured that significant cost reductions have been achieved from 2015/16.</p> <p>The Councils medium term financial strategy for the four years to 31 March 2019 identifies a cumulative funding gap of £14k (reported September 2014). Assuming the savings from the T18 programme are all realised.</p>	Green	Green
Adequacy of planning assumptions	<p>The planning process is robust with appropriate risk management and involvement from service managers. The major assumption is that the T18 project is delivered successfully and in full.</p> <p>The MTFS sets out clearly the assumptions considered and these appear reasonable. The T18 planning also models various assumptions.</p> <p>The Council is not dependent on one-off budget fixes or asset sales, nor does it have unsustainable income streams.</p>	Green	Green
Scope of the MTFP and Links to Annual Planning	<p>The annual budget is derived from the MTFS and is completed as part of the updating of the forecasts. The MTFS covers a four year horizon.</p> <p>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	Green
Review process	<p>MTFS covers period to 2018/19. It was updated in September 2014 and takes into account expected decreases in government funding.</p> <p>Going forward, the Council needs to continue monitor the delivery of its services to ensure that the required levels and quality standards are maintained.</p>	Green	Green
Responsiveness of the Plan	<p>The MTFS does not include scenario planning and could be improved to incorporate this. However, the Council monitors the budget on a quarterly basis with any deviations, positive or negative, being addressed through an action plan.</p> <p>However the 2015 MTFS does include the sensitivity analysis being recommended here.</p>	Green	Amber

Financial Governance

Area of focus	Summary observations for 2014/15	RAG-Rating 2013/14	RAG-Rating 2014/15
Understanding of the financial environment	The Council has been re-structured to produce a more streamlined management team. Whilst the S151 officer is not a member of the senior management team, she is able to attend the management team meetings on request, has unfettered access to all members of the management team and is fully aware of decisions being taken, including financial implications. The quarterly reports focus on the current position and link to the future financial pressures.	Green	Amber
Executive & Member Engagement	Members receive quarterly monitoring reports on the budget and the Council's performance. The Audit Committee is very challenging. All reports receive thorough consideration. The Group Manager (Support Services), Finance Community of Practice Lead, the Audit Manager or the Head of the Audit Partnership attend every meeting. Any issues that are not fully resolved or responded to are challenged and followed up at the next meeting.	Amber	Amber
Overview for controls over key cost categories	The leadership team is fully aware of the current financial position and future outlook. Budget and required savings are considered and planned through management team and Council. The MTFS sets out clearly the position of the Council currently and projected forward.	Green	Green
Budget Reporting (Revenue & Capital)	Monitoring reports are presented to management team before being given to members (executive committee). The quarterly balanced scorecard monitors delivery of key performance indicators.	Green	Green
Adequacy of other Committee Reporting	Quarterly performance is shown as a balanced scorecard. The Balanced Scorecard gives an overview of performance, and any indicators which have been at 'red status' (i.e. 10% or more below target) for two or more consecutive quarters are reported individually.	Green	Green

Financial Control

Area of focus	Summary observations for 2014/15	RAG-Rating 2013/14	RAG-Rating 2014/15
Budget setting & monitoring - revenue & capital	<p>The MTFS does not include any reliance on short term fixes.</p> <p>The Council (with West Devon) delivered its longer term savings plans through the T18 project.</p> <p>The large majority of redundancies have been accounted for and other costs funded in the 2014/15 accounts.</p>	Green	Green
Savings plans setting & monitoring	<p>Savings identified are all continuing, there are no items of a one-off nature.</p> <p>Whilst cash flow is not included as part of the financial projections, short term finance is available to cover any cash flow fluctuations. The Council should consider whether reporting cash flow projections would provide further assurance for Members over the financial control environment at the Council.</p> <p>Long term savings are being driven by the T18 transformation programme.</p> <p>All initiatives have to be supported by a business case.</p>	Green	Green
Key financial accounting systems	<p>There has been no fundamental change to the main accounting systems and these are assessed as being fit for purpose.</p>	Green	Green
Finance department resourcing	<p>Resourcing has been reduced by 30% as part of T18 program.</p> <p>The current structure has been in place since July 2014 and no issues have arisen.</p>	Green	Green
Adequacy of Internal audit arrangements	<p>The Chief Internal Auditor retired in October 2014 as part of T18. The service is now managed by Devon Audit Partnership, with the operational Internal Audit staff remaining in post at the Council.</p>	Green	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	Green

Prioritising Resources

Area of focus	Summary observations for 2014/15	RAG-Rating 2013/14	RAG-Rating 2014/15
Leadership and challenge in prioritising resources	<p>The T18 program has focused management and members on the need to deliver the levels of savings promised. The MTFS, Budget and T18 project progress are reported regularly to members and are open to challenge and comment. The members receive a Quarterly performance report that shows that the T18 program is delivering the expected benefits.</p>	Green	Green
Consultation with key stakeholders	<p>T18 project empowers management and leaders to change the way the Council (and West Devon) operates to achieve large savings across both councils. Service managers are included in the planning process.</p>	Green	Green
Basis for decision making	<p>Under T18 all of the Councils' non-manual workforce is now shared with West Devon Borough Council, delivering shared services. Therefore the focus has been on full transformation, rather than reviewing individual high cost services. A large procurement exercise is currently underway for the six leisure centres of both councils. Risks have been documented and monitored as part of the Audit Committee business and also at Council level.</p>	Green	Green
Understanding impact and outcome of decisions	<p>Service cost and delivery are considered in budget setting and monitoring decisions. The impact of these is measured across the balanced scorecard in the Performance report.</p>	Green	Green

Improving Efficiency & Productivity

Area of focus	Summary observations for 2014/15	RAG-Rating 2013/14	RAG-Rating 2014/15
Understanding costs	The Council has developed its own performance report. Benchmarking is undertaken using statistics provided by SPARSE. Areas of high spend were highlighted in 2013/14. The council recognised these at the time, and the Audit Committee requested a detailed response from management to explain the Council's position, which was presented on 12 March 2015. The Audit Commission's VfM profile has again been used to identify areas of high spend.	Green	Green
IT Systems and Data quality	No issues or concerns have been identified over the quality of data.	Green	Green
Delivery of Savings and service re-design	The Council has achieved its savings target in 2014/15. There was a small underspend of £34k. Plans are sufficiently detailed to allow monitoring of the Council's achievement going forward.	Green	Green
Effectiveness of key services	There have been no inspections or other reviews that have identified areas where services may be failing. Overall effectiveness is monitored through the Council's Performance reporting arrangements.	Green	Green



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