

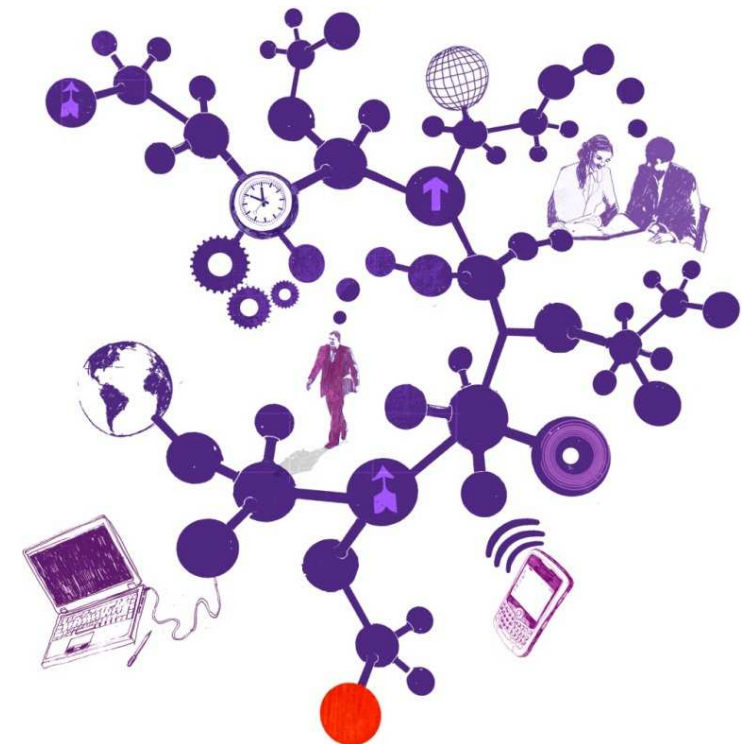
Report on Value for Money for South Hams District Council

Year ended 31 March 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 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

On 18 December 2013, the government made a written statement on the provisional local government finance settlement key issues emerging from the announcement included:

- The Council's draft allocation for 2014/15 of Government Grant (Settlement Funding Assessment)
- Council Tax Freeze Grant funding for 2014/15 and 2015/16 will be built into the Spending Review baseline and will be on-going
- Council Tax threshold principles will be announced in the New Year.

The Minister announced that local authorities will face an overall reduction in spending power of 2.9%; and that no local authority would experience a decrease of more than 6.9%.

As a result the Council is predicted to suffer a 27% reduction in government funding over the four years from 2014/15 to 2018/19.

As part of its Medium term financial strategy 2014/15 to 2017/18 (MTFS) members acknowledged a £2.35m budget gap over the four financial years 2014/15 to 2017/18. For 2014/15 the gap was £582,000, this gap was closed as part the budget setting for the 2014/15.

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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.

The Council reported a small deficit of £127k for 2013/14 principally arising from shortfalls of income from Car parks and the Dartmouth Ferry. The budget incorporated savings of £550k. The deficit represents 0.2% of the council's gross expenditure.

Usable reserves at 31 March were £10.3m, which is an increase on 31 March 2013, so overall, the Council's financial position at the year end remains healthy. However, the Council's forward-looking financial plan recognises the need for savings in 2014/15 of £0.69m and the medium term financial strategy recognises further budget pressures of £1.8m over the next four years. Delivery of these savings is highly dependent on the success of the T18 transformation programme, in partnership with West Devon Borough Council.

The Council has areas of spend that appear high in comparison with similar councils, such as Waste management, and highways and transport, the Council also does not generate as much income from the arts and tourism as its family group. The Council is aware of these through its use of the SPARSE benchmarking and is investigating the scope for these to be addressed. This will be explored in more detail as part of our financial resilience report, which will be presented at the next Audit committee meeting.

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

The Council's plans prioritise its resources reflecting the financial constraints. The T18 programme aims to streamline processes to improve efficiency & productivity. We have concluded that the Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

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 where gross expenditure is above average, no figures are available for compensating income gains. The Council's finance team undertake various benchmarking exercises of its costs, using data provided by the Rural services network (SPARSE data).	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 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 West Devon Borough 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 Executive, the Audit Committee and Full Council meetings, in accordance with the normal timetable.

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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

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






Chichester District Council
Cotswold District Council
Craven District Council
Derbyshire Dales District Council
Hambleton District Council
Lewes District Council
Malvern Hills District Council
North Devon District Council
Purbeck District Council
South Lakeland District Council
Suffolk Coastal District Council
Teignbridge District Council
Tewkesbury Borough Council
Wealden District Council
West Dorset District Council

Key Indicators of Financial Performance

Area of focus	Summary observations	Assessment
Council Tax collection	Council tax collection rate was 98.8% in 2013/14 which is an increase on 2012/13.	 Green
NDR collection rates	NDR collection rates were 98.6% in 2013/14 which is an increase over 2012/13, which represents a good performance in a difficult financial climate.	 Green
Workforce	The number of days lost to sickness have fallen for 2013/14 by 14% to 9.4 days per full time equivalent. Long term sickness represents two thirds of the sickness	 Green
Performance against budgets (Revenue Capital & Savings)	The Council reported a small deficit of £127k for 2013/14 principally arising from shortfalls of income from Car parks and the Dartmouth Ferry. The budget incorporated savings of £0.69m. The deficit represents 0.2% of the council's gross expenditure.	 Green
Reserves balances	Usable reserves at 31 March were £10.3m ,which is an increase on 31 March 2013, so overall, the Council's financial position at the year end remains healthy. However, the Council's forward-looking financial plan recognises the need for savings in 2014/15 of £0.58m and the medium term financial strategy recognises further budget pressures of £1.8m over the next four years.	 Green

Key Indicators







Audit Commission Key ratios – Overview

Area of Spend	2013/14	2012/13	Average 2012/13	Commentary	Assessment
Working capital ratio	4.03	4.16	4.21	Proportion of current assets to current liabilities. The Council has cover for its current liabilities.	 Green
General Fund Balance	£1,707k	£2,534k	£2,821k	General fund balance is low compared to the average. Part of the decrease from 2012/13 is the transfer to Reserves of £1m to help fund the T18 programme..	 Amber
Usable reserves to Gross revenue expenditure	31%	28%	28%	The Council increased its Earmarked reserves in 2013/14 to provide investment into the T18 programme. The Council's usable reserves remain above that of its nearest neighbours.	 Green
Usable capital receipts	£4,497k	£5,302k	£5,047k	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
Long term borrowing to tax revenue ratio	0.00	0.00	0.62	The council is debt free	 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	407.95	382.00	Q3	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	16.15	11.25	Q4	The Council'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	24.37	39.93	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	55.44	47.49	Q4	Specifically the Council's spending on waste management exceeds that of its nearest neighbours. There are a variety of reasons for this: <ul style="list-style-type: none"> - Collection methods between authorities differ which leads to a variance in costs. - Differing methods of allocating overheads included for depot costs. - Decisions on the type of materials collected for recycling. In a recent waste review of the South Hams waste service savings/income streams were identified which will start to decrease the cost per household. Further work is intended to review round numbers which should lead to a further decrease in costs.	 Red
Housing Services	12.15	12.20	Q3	Spending on housing services is average for its family group.	 Green
Sustainable economy	91.96	58.70	Q3	This represents a corporate priority, so spend is in line with expectation.	 Amber

Key Indicators

Audit Commission VfM profile – Financial Resilience

Indicator	2012/13	Average 2012/13	Quartile	Commentary	Assessment
Council Tax requirement	6,860	7,864	Q2	Requirement is falling and is below the Group average.	 Green
Income from Sales, Fees and charges as a % of total spend	29.84%	24.35%	Q1	This includes planning, leisure and transport related income. Income is above the average.	 Green
Reserves as a % of net current expenditure	27.80%	26.80%	Q2	The level of reserves is above average..	 Green
Spend on management and support	49.60%	39.00%	Q3	The Council's spend on management is above average. This indicator is based on 2012/13 data and as part of the T18 Programme, the Council have carried out a Senior Management Review which has delivered savings of £350,000 across both Councils.	 Green
Net spend on Council tax collection per head	6.03	5.18	Q3	Costs of collection are average.	 Green

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 has all its financial plans and processes in place and up to date. The Medium Term Financial strategy covers a four year horizon.</p> <p>Medium Term Financial Strategy is evidence that the Council has considered and taken into account all relevant information and proper advice when determining its financial arrangements.</p> <p>T18 demonstrates that the Council has a long term focus and considered a number of scenarios.</p>	 Green
Adequacy of planning assumptions	<p>The MTFP sets out clearly the assumptions considered, these are reasonable, however, the T18 planning modelled various assumptions.</p> <p>There is no planned reliance on short term fixes or one-off savings..</p>	 Green
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 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
Review process	<p>Monitoring is presented quarterly. Members consider this as part of a comprehensive progress report.</p> <p>Should variances be identified, actions are put in place to address concerns.</p> <p>The progress report projects anticipated outturn for the whole financial year.</p>	 Green
Responsiveness of the Plan	<p>The Council monitors the budget on a quarterly basis, any deviations, positive or negative, are addressed through an action plan.</p>	 Green

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Financial Governance

Area of focus	Summary observations	RAG-Rating
Understanding of the financial environment	<p>The leadership team is fully up to speed with current financial position. Budget and required savings are considered and planned through management team and the Council. The MTFS sets out clearly the position of the Council.</p> <p>Progress reports are comprehensive and clearly set out the current financial position.</p> <p>Members have received some financial training.</p>	 Green
Executive & Member Engagement	<p>The Si51 officer is part of the management team. New arrangements are in place from October 2014, where the Council will share two Directors and four senior managers.</p> <p>The Audit Committee is very challenging. All reports receive thorough consideration. The Head of Finance and Audit and the Chief Internal Auditor are also on hand as are any of the report authors. Questioning is specific, not always managed by the chair. Any incomplete answers are challenged and brought back to the next meeting.</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>	 Amber
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

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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. Capital and Revenue budgets are included.</p> <p>There is no indication that the Council won't be able to deliver its statutory services and no indication from the budget that risks are overlooked.</p>	 Green
Savings plans setting & monitoring	<p>MTFS demonstrates that there is no reliance on short term fixes. The Council has achieved its savings targets in the past.</p> <p>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 (finance will be within the support services) to cover the joint provision of services with West Devon Borough Council.</p> <p>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 and will be based at Totnes.</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

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Prioritising Resources

Area of focus	Summary observations	RAG-Rating
Leadership and challenge in prioritising resources	<p>Members and management have addressed the challenges going forward through the planning and introduction of the T18 project. Historically, savings have been achieved .</p> <p>T18 project empowers management and leaders to change the way the Council (and West Devon) operates to achieve large savings across South Devon. The project has started and the phase 1 has begun with a big reduction in finance staff.</p>	 Green
Consultation with key stakeholders	<p>Budget setting is driven from services. Staff are heavily involved in cuts and savings proposals. Public meetings are held to discuss plans.</p> <p>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>Savings proposals are drawn from all services. High cost services are considered through use of SPARSE data benchmarking. Costs are usually a result of policy, rather than waste.</p> <p>All areas are supported by explanations</p> <p>Key partnership is with West Devon Borough Council 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 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, on a monthly basis, 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

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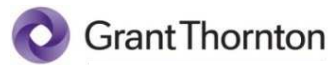
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Improving Efficiency & Productivity

Area of focus	Summary observations	RAG-Rating
Understanding costs	<p>The Council uses benchmarking data collated by SPARSE and as a rural authority is aware of the higher costs of delivering services. This allows comparison with other rural district councils.</p> <p>Whilst there are no systematic comparisons made by the Council, Services carry out their own benchmarking using 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.</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 was calculated to deliver 23% of the net revenue budget for both council's, this has been revised in the updated business case (December 2014) to 30 %.</p>	 Green



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