

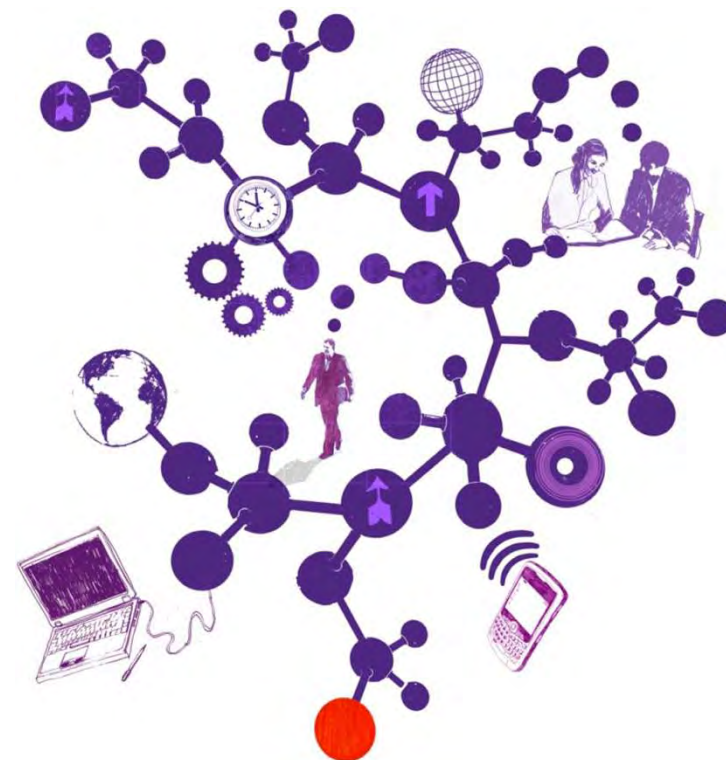
Review of the Council's Arrangements for Securing Financial Resilience for Bromsgrove District Council

Year ended 31 March 2013

October 2013

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Executive Summary

Our approach

Value for Money Conclusion

Our work supporting our Value for Money (VfM) conclusion, as part of the statutory external audit, includes a review to determine if 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 and agreement with officers and completed it in such a way as to minimise disruption to them.

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.

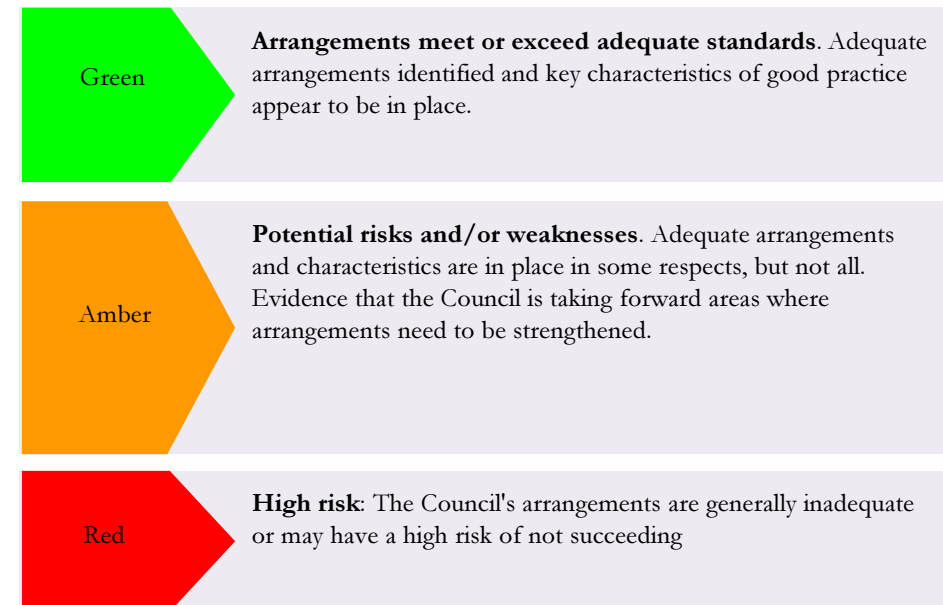
Further detail on each of these areas is provided in the sections of the report that follow.

Our overall conclusion is that the Council is financially resilient for the foreseeable future.

This report highlights some areas where arrangements can be improved. However the overall picture is that Bromsgrove Council has made considerable changes in recent years, with the aim to focus on delivering Council priorities whilst seeking to minimise underlying costs.

The Council currently has a relatively good level of general fund balances. These have increased year on year, providing a buffer which is important with reducing central government grants. The Council has identified a need to make considerable savings over the medium term in order to achieve balanced budgets.

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 current Spending Review (SR10) to Parliament on 20 October 2010. SR10 represented the largest reductions in public spending since the 1920s. Revenue funding to local government was to reduce 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 were frontloaded, with 8% cash reductions in 2011-12. This followed a period of sustained growth in local government spending, which increased by 45% during the period 1997 to 2007.

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. In his Autumn Statement on 5 December 2012, the Chancellor reinforced austerity measures announcing a further £6.6bn of savings during 2013-14 and 2014-15. Whilst health and schools will be continue to be protected in line with the Government's policy set out in SR10, local government will continue to face significant funding reductions. The Department for Communities and Local Government will contribute £470m of these additional savings, £445m of which will come from local authority funding during 2014-15, with local authorities being exempt from additional savings in 2013-14. In his March 2013 Budget the Chancellor announced further departmental 1% savings during each of 2013-14 and 2014-15. The NHS and schools remain protected, but police and local government will need to find an additional 0.5% over both years.

The next spending round period, 2015-16, was announced by the Chancellor on 26 June 2013. Local government will face a further 10% funding reduction for this period.

These funding reductions come at a time when demographic and recession based factors are increasing demand for some services, and there is a decreasing demand for some services, such as car parking, where customers pay a fee or charge.

Financial austerity is expected to continue until at least 2017.

Local Context





In Bromsgrove between 2009 and 2015 the impact of the reduction in government grant reflects a 46% cut in funding cumulatively. Localising of business rates also transfers risk from central to local government. The Council has opted to work with the Greater Birmingham and Solihull cluster for pooling of business rates.

In common with other councils, there has been a fall in income from fees and charges and this income is likely to remain depressed until the economy improves. The Council has also had a freeze in council tax over the last 2 years.

The Council has needed to make some changes to the way that it operates to reduce costs. The focus of this has been to reduce management and back office costs through sharing services. It is likely that the Council may have to make some difficult decisions if underlying costs are to be reduced further.

Executive Summary

Overview of Arrangements

Risk area	Summary observations	High level risk assessment
Key Indicators of Performance	Council performance is not significantly out of line with its nearest neighbours group	 Green
Strategic Financial Planning	In common with other councils, there are gaps in the medium term financial plan from 2014/15 that have yet to be addressed. The level of usable balances and the council track record in achieving budget surplus provides us with some confidence of financial resilience.	 Green
Financial Governance	Members and officers are clear about the financial environment in which they operate. Budgets are appropriately delegated and budget holders are supported by accountants. For the last 2 years the council has had significant unplanned underspends in its revenue and capital budgets.	 Amber
Financial Control	The council has appropriate staffing and procedures to ensure there is appropriate financial control. There are plans to more effectively report performance against savings plans and to improve risk management.	 Green

Executive Summary

Next Steps

Area of review	Key points for consideration	Responsibility	Timescale	Management response
Key Indicators of Performance	No specific matters arising	n/a	n/a	n/a
Strategic Financial Planning	Ensure that the plans for the 14/15 budget make explicit links between the new strategic purposes and decisions over budget allocation and savings. Clearer forward plans should be in place around assets and workforce to underpin the MTFP	Cabinet and Executive team	By Feb 2014	
Financial Governance	Improve managers' budget management skills to enable more effective forecasting of the projected financial position	Director of finance Cabinet	By Dec 13	
Financial Control	Ensure that in year reporting includes review of savings plans Risk management to be embedded in day to day procedures and corporate risks should be routinely reported.	Q1 reports Executive	on-going	

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Appendix - Key indicators of financial performance

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
- Sickness absence levels
- Out-turn against budget
- Useable Reserves: Gross Revenue Expenditure

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

Wychavon District Council
Tewkesbury Borough Council
Stroud District Council
Stafford Borough Council
South Staffordshire Council
Selby District Council
Rushcliffe Borough Council
Rugby Borough Council
Malden District Council
Litchfield District Council
Hinckley and Bosworth Borough Council
High Peak Borough Council
Harborough District Council
Babergh District Council
Ashford Borough Council

Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Liquidity	<p>The working capital ratio provides an indication of whether the Council has enough current assets to cover its immediate liabilities. For the nearest neighbours group this ranged from 0.75 to 9. Bromsgrove at 2.4 is to the lower end of the range, although the position has improved slightly in 2012/13. Over 55% of the council's debt relate to other local authorities and central government and therefore are relatively low risk. The Ratio for Bromsgrove is reasonable and does not put the Council at significant risk.</p> <p>Around 60% of the council's income comes from central government grants, of which over 80% is in relation to housing benefits. The proportion of income raised from council tax and local fees and charges has risen slightly year on year.</p>	 Green
Workforce	<p>Bromsgrove's sickness days are monitored routinely. Whilst there are some discrepancies between departments, Bromsgrove compares well to the local authority and public sector average of days lost through sickness</p>	 Green
Performance Against Budgets: revenue & capital	<p>In 2012/13 the council had a reasonably large underspend against both its revenue and capital budgets. The 2012/13 capital programme was £3.6m but the out-turn was £1.3m, due to some planned and some unplanned slippage in the programme. The revenue budget underspent by £0.6m this year, and £1.045m the previous year. This has meant that general fund balances have increased by over £1m since 31/3/11 which increases financial resilience in a period of uncertain funding. However, it does highlight some concerns over the Council's budgeting and financial monitoring procedures – particularly when at quarter 3 the council was still predicting to meet its target.</p>	 Amber
Reserve Balances	<p>The Council has set a minimum level of GF balances at £1m and as indicated above, the Council is some way from that balance. Over the next two years, the council is planning to make significant recurring savings and has no immediate plans to use general fund balances to support expenditure. The Council has insufficient capital balances to meet its capital programme and thus it is planned that the Council will borrow should the large capital schemes proceed. The costs of borrowing are estimated within the programme. The graph showing usable balances relative to GF expenditure shows that the council is broadly the median of its nearest neighbours.</p>	 Green

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Strategic Financial Planning




Key characteristics 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 MTFP focuses resources on priorities.
- The MTFP 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 MTFP 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 MTFP 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 MTFP.

Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
Focus of the MTFP	<p>Within the MTFP, the Council has made assumptions about funding levels, both in relation to the main central government grants but also other grants e.g. council tax freeze grant. Assumptions are made as expected around inflation costs, utility bills and staff pay. Detail behind the budget includes assessment of unavoidable costs (including estimates for reduction in income) and areas where there are planned reductions in costs. The revenue budget and MTFP includes assumptions around the impact of capital projects and investments, for example the additional borrowing costs should the capital programme proceed as planned. The high level assumptions are outlined in the budget setting report and the detailed assumptions are contained in the supporting MTFP spread sheet. The assumptions made in the 2013/14 plan, that impact on the 2014/15 and beyond are rolled forward to identify the funding gaps. The MTFP is reviewed and updated annually as part of the budget setting process</p>	 Green
Adequacy of planning assumptions	<p>The planning assumptions are reasonable overall. National indicators supplemented by local knowledge and history inform the major forecasting assumptions. benchmarking is not widely used as this has not been found to be helpful in the past. The Council has not routinely produced corporate strategic documents such as asset management, or workforce plans. The Council has reviewed its strategic purposes and has published a new council plan in July 2013 and this is clearly not yet keyed into the budget setting process and so there is a disconnection between the budget and published council plan.</p> <p>The Council has recently restated its intention to sell the Bromsgrove council offices and many staff will relocate to Redditch and a new smaller office built in Bromsgrove. This will have significant revenue and capital implications and there has been no scenario planning for this yet, although some financial reports do make some estimates of receipts and costs.</p> <p>The Council has yet to fully identify all the savings required in the MTFP. This position is relatively common for local authorities and the Council has large levels of balances, however this does provide the Council with risk and is therefore reflected as an amber assessment</p>	 Amber
Scope of the MTFP and links to annual planning	<p>As outlined above, the council does not produce a formal workforce or estates plan. Clearly there is on-going planning work and development in both these areas which are routinely reflected in reports to management and reflected as far as possible in budgets. The Council reviews its staffing fairly regularly as there are changes arising from service reviews - for example the shared services reviews all start with a business case that outlines the planned staffing structure in the shared service. We would expect that for the 2014/15 planning cycle there would be a clearer link between strategic purposes and the council plan and the budget setting decisions.</p>	 Green

Strategic Financial Planning

Area of focus	Summary observations	Assessment
Review processes	The medium term financial plan is reviewed annually as part of the budget setting process. It is reported to members routinely throughout the year highlighting changes in budget assumptions and the forward impact of these.	 Green
Responsiveness of the Plan	As outlined in the following sections of this review - whilst the budget assumptions and forecast outturn are updated quarterly, the Council did not accurately forecast the expected outturn for the few years. This suggests that the responsiveness of the plan to both outturn of the previous year and changes in information and assumptions during the year could be improved. The Council is going through transformation reviews and extending shared service arrangements, the financial consequences of which may be difficult to predict or measure and may not be accurately reflected in forward plans. There is little year end evaluation of what has been saved through planned service changes and what has been saved through general efficiency savings or one off savings or receipts.	 Amber

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Financial Governance

Key characteristics 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	Assessment
Understanding the Financial Environment	<p>Cabinet members are likely to be aware of the relevant financial matters both through budget reporting but also taking into account their portfolio responsibilities. There is clarity around budget and other responsibilities for members and officers. The Council is relatively small and key members are fully engaged, thus Cabinet members are likely to be aware of the key matters in the current and future years that will impact on council finances.</p> <p>Some reporting is through the shared services board (joint with Redditch) but the matters from these meeting are reported back and the papers are available.</p> <p>The Council does not have any on-going legal challenges that provide uncertainty around future liabilities.</p>	 Green
Executive and Member Engagement	<p>Directors, including the S151, along with members of the Cabinet appear to all be important players in the Council's decision making arrangements. Officers appear to be relatively well informed both through non financial reporting and through up to date on-line financial information. Key members are appropriately supported by officers.</p> <p>Key members and the Chief Executive appear to have appropriate status to provide effective challenge and to provide leadership. All are involved in discussions around the budget setting and around corporate priorities – and the wider membership clearly has a role in approving the overall budget. Minutes demonstrate that there is challenge by members in the budget setting process. The Board receives all internal and external reports and has a role around risk management but does not approve the accounts, unlike the majority of other Councils.</p>	 Green

Financial Governance

Area of focus	Summary observations	Assessment
Overview for controls over key cost categories	<p>The Council reports progress against budget quarterly. This is currently reported in service area and the costs of support services are omitted in order to assist interpretation. An overview is provided and then individual service areas are reported. Narrative is included highlighting where there are variances.</p> <p>As much of the budget is delegated, accountants who prepare these reports provide forecast outturn estimates based on discussions with budget holders. The significant variance in outturn from that estimated at quarter 3 indicates some weakness in arrangements. This has not been fully explained to us but could be due to:</p> <ul style="list-style-type: none"> • Budget setting – lack of review of base budgets or inadequate reflection of prior year underspends • Savings monitoring and review ineffective – some savings are built into base budgets, some are incorporated as the year progresses (as they are identified) some are managed corporately and some arise by the expectation that budget holders will produce outturn savings. A lack of formal review of what savings were achieved against those planned add to further difficulties as to which are recurring savings (assumptions have been built into the next year budget around these) and one offs • Lack of adequate communication and challenge between budget holders and accountants • Lack of reliable reported information or assessment of risks to enable effective challenge by members 	 Amber
Budget reporting: revenue and capital	<p>The actual reports process is described above and is an adequate process - although with weakness around forecasting as reflected above.</p> <p>With the change in corporate priorities in 2013/14, it is likely that the Council will want to review how it manages its finances, both in terms of allocating resources in priority areas but also monitoring and managing its spending. Changes arising from transformation mean that services are increasingly operating and being managed horizontally rather than in the traditional manner. This too further complicates budgeting and monitoring and financial responsibility.</p> <p>The Council clearly needs to focus on improving the accuracy of its financial forecasting and provide more complete information to those charged with governance to enable effective decision making.</p>	 Amber
Adequacy of other Committee/Cabinet Reporting	<p>See Comments above – there is scope to improve the adequacy of reporting – both in terms of the accuracy but also the timeliness, detail and sophistication around forecasting and analysis of risks. Action plans do not routinely accompany budget reports</p>	 Amber

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Financial Control

Key characteristics 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.

Savings Plans

- Processes for identifying, delivering and monitoring savings plan schemes are robust, well thought through and effective.

Financial Systems

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

Finance Department




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

Internal Control

- 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 business risks are managed and controlled.



Financial Control

Internal arrangements



Area of focus	Summary observations	Assessment
Budget setting and monitoring - revenue and capital	<p>In the annual budget setting round, the Council makes assumptions about inflation, rates of pay, and income from fees and charges taking into account judgements around expected levels of grant funding and local indicators. This part of the process appears reasonable and consistent with the approach adopted by similar councils. The Council has set a budget over the last two years, with a need to make considerable levels of savings.</p> <p>In the last 2 years there has been a large variance between expected outturn and actual, resulting in underspend and net contribution to general fund balances.</p> <p>At budget setting time, some of the savings are identified and built into departmental budgets. Other savings are identified as the year progresses and built into base budgets. As described above, there is review of budgets as the year progresses and position against budget is reported quarterly. However the continuing unexpected underspend suggests that there is some weakness in budgeting and monitoring arrangements.</p>	 amber
Performance against Savings Plans	<p>The Council is making considerable savings. As described above, not all the savings required to deliver the budget are identified at the start of the year. As schemes are identified they are incorporated into base budgets. Some savings are non specific, including from transformation.</p> <p>The budget and medium term financial plan contain detail about where savings are to be made (within the appendices) and there is some mapping of savings to priorities.</p> <p>There is little reporting of risks around savings plans or how these are being managed. There is no formal reporting during the year, or a year end review of whether planned savings schemes have been achieved.</p> <p>The explanatory foreword to the accounts provides a high level overview of the out-turn against budget and could provide a better analysis of the financial out-turn. There is reference to expected achievement of savings from shared services, however there is no reporting of actual savings from shared services and transformation.</p>	 Amber
Key Financial Accounting Systems	<p>Internal Audit programme covers all the key financial systems. In year and the year and Chief Internal Auditor opinion reflects that all financial systems are operating as expected with no significant weakness in control</p>	 Green

Financial Control

Internal and external assurances

Area of focus	Summary observations	Assessment
Finance Department Resourcing	<p>The Council is moving towards a shared finance department. This is in part constrained by the operation of two financial ledgers and because staff are located in two different locations – there are outline plans to address these two issues over the next 2 years. It is evident that staff are increasingly sharing roles which has the benefits of building in resilience and pooling expertise.</p> <p>The staff structure has been reviewed periodically over the last 2 years and a senior manager review is on-going. Clearly a further review would be appropriate when staff are on site together, with the objective of reducing unit costs over time. A combined team provides scope to provide some specialism but there should also be good succession planning – to ensure that current expertise in critical areas is not lost as there is turnover of staff. There is currently reliance on 1 or 2 key individuals, and there is further scope for some increased delegation and reallocation of responsibilities.</p> <p>Clearly the current financial pressures means that finance is a critical support function for the Council, and the amount of work involved in changes such as implementing a ledger successfully and changing budgetary monitoring arrangements (e.g. to reflect new corporate priorities) should not be underestimated.</p>	 Green
Internal audit arrangements	<p>Internal audit is provided by a shared service based at Worcester City Council. The approach is risk based and officers operate within the remit of the CIPFA code of practice.</p> <p>The team appears to have appropriate skills and experience and the quality and scope of reviews is appropriate.</p> <p>The team has had insufficient staffing resources which has resulted in slippage in their annual plan, although these problems were not as marked in 2012/13. The team did not complete all of its work by the time the CIA opinion was issued although most of the substantive work was complete. As with all services, there is budgetary pressure associated with the service and thus the scope to increase internal audit coverage is limited. The plan has included some 'critical friend' review of transformation which is appropriate. The Audit committee needs to be assured that the plan is flexed appropriately to reflect increased risk associated with staff turnover at the Council and changes in controls.</p>	 Green

Financial Control (cont)

Area of focus	Summary observations	Assessment
External audit arrangements	The prior year opinion on the accounts was unqualified and the accounts were well prepared without material errors. A material adjustment was made in the 2012/13 accounts however this was a one- off technical matter which is not a matter of particular concern.	 Green
	The scope of external audit work also includes providing a VFM conclusion. This was again unqualified.	
	The 2011/12 ISA 260 report made a number of observations and recommendations around the Council's budget setting arrangements and management of savings plans. Not all these were accepted by members and there has not been any in year review of these recommendations by members.	
	The AGS does refer to the recommendations made by external audit and refers to progress being made in addressing these matters.	
Assurance framework/risk management	The Council manages the risks that the Council is facing through the work of the senior management team and the Cabinet and the reports provided to them.	 Amber
	The Council does not yet have an embedded formal risk management culture, although there are some services where it is clearly taken very seriously – e.g. customer services. At a corporate level, a corporate risk register is not used as management tool but appears to be used more as a means of demonstrating governance to external agencies.	
	The risk register, updated to reflect the review of consultants and to reflect the new corporate priorities is to be considered by members in September.	

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Key Indicators of Financial Performance

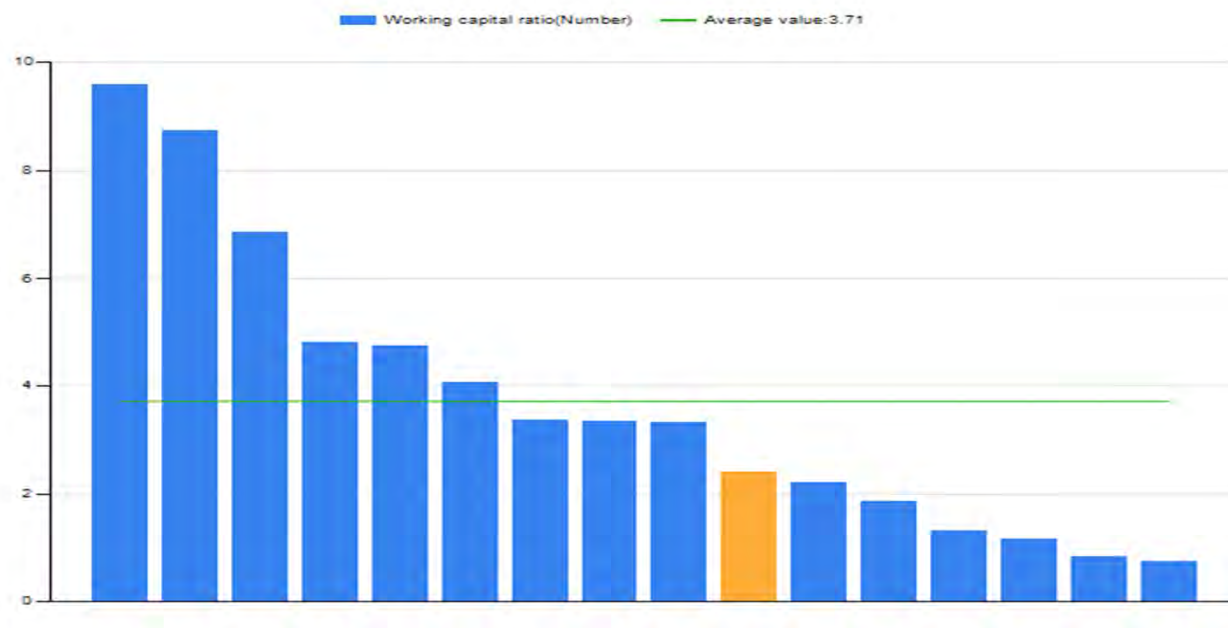
Working Capital - Benchmarked

Definition

The working capital ratio indicates if an authority has enough current assets, or resources, to cover its immediate liabilities - i.e. those liabilities to be met over the next twelve month period. A ratio of assets to liabilities of 2:1 is usually considered to be acceptable, whilst a ratio of less than one - i.e. current liabilities exceed current assets - indicates potential liquidity problems. It should be noted that a high working capital ratio isn't always a good thing; it could indicate that an authority is not effectively investing its excess cash.

Findings

Table below shows the working capital ratio for Bromsgrove at 2.4 compared to its nearest neighbours in 2011/12. The 2012/13 unaudited accounts show an increase to 2.8. The Council remains in the preferred range of 2:1. This indicates that the council's liquidity has improved and remains in the preferred range.



Key Indicators of Financial Performance

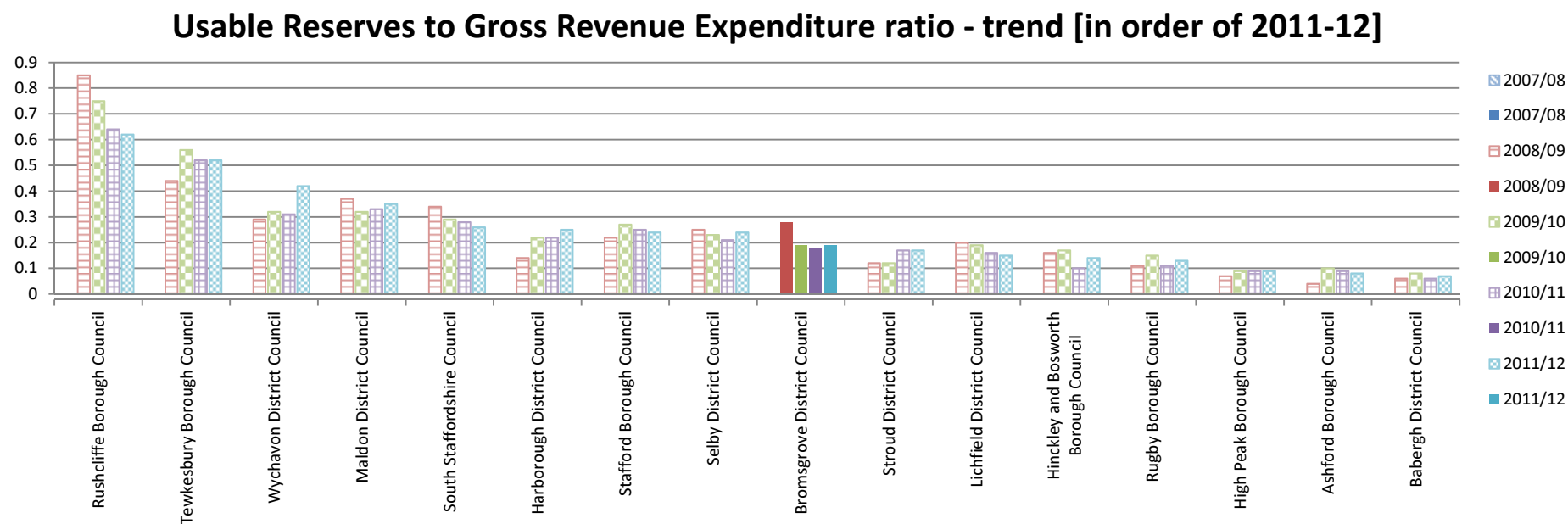
Useable Reserves- Benchmarked

Definition

This shows useable capital and revenue reserves as a share of expenditure. A ratio of one means the total reserves matches the level of expenditure.

Findings

The level of general fund reserves and earmarked reserves have remained fairly constant over the last 3 years. The overall ratio of usable reserves to general fund expenditure has remained relatively stable at slightly below the average for the comparator group at 0.19. A further £0.5m was added to balances in £2012/13. The level of useable capital receipts has had a downward trend.



Source: Audit Commission's Technical Directory

Key Indicators of Financial Performance

Sickness Absence Levels

Background

The average sickness absence level for the public sector is 9.6 days per FTE, whilst the private sector average is 6.6. Many councils have taken a proactive approach to reducing the number of days lost to sickness each year. For example:

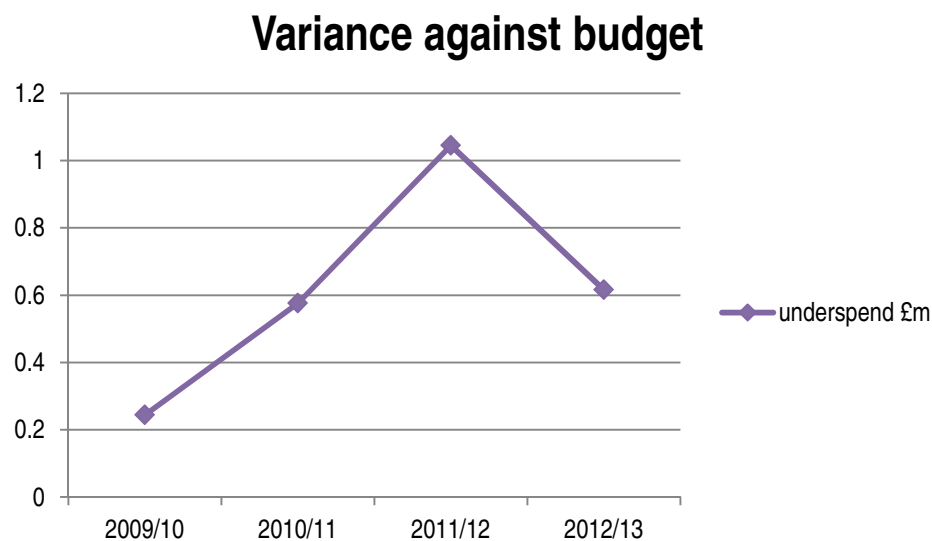
- London Borough of Croydon reduced absence from 12.5 days to 6.4 days over two years due to a new tougher sickness absence management.
- Cambridgeshire County Council reduced sickness absence levels to 5 days per employee using an approach built on a relationship of trust with staff and empowering managers to take control of absence management.

Costs that accrue from sickness absence relate to the hiring of agency staff to cover staff gaps, or from holding a larger workforce complement than is desirable. Absence also damages service levels either through staff shortage or lack of continuity. Reducing absenteeism saves money, improves productivity and can have a positive customer benefit. Absence management will be a particular challenge for all authorities during SR10, given the context of significant pressures on staff to deliver "more for less".

Over the last two years Bromsgrove's sickness levels have remained fairly stable at around 7.4 days lost per employee, although there are some departmental variances

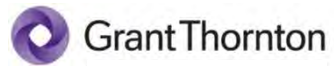
Key Indicators of Financial Performance

Performance Against Budget: Track Record



Source: Bromsgrove District Council Financial statements

The Council routinely underspends against its revised budget, as shown in the graph. This has increased the level of general fund balances and thus the financial resilience of the Council. It is unclear why the Council routinely underspends, but factors such as setting budgets without clear savings plans, weakness in forecasting and a tendency for budget holders to not declare savings until the year end could all be factors. Unplanned variances in budget could result in a lack of confidence in the council financial reporting.



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