Plymouth City Council

Review of Financial Resilience

November 2011

Content

1 Our approach

Introduction and background

In carrying out our audit of Plymouth City Council ("the Council"), we comply with statutory requirements governing our duties, in particular, the Audit Commission Act 1998 ("the Act") and the Code of Audit Practice ("the Code").

The Code emphasises the respective responsibilities between audited bodies and their auditors as follows:

- The Council is responsible for putting in place proper arrangements for the preparation of its accounts, governance of its affairs and for making adequate arrangements to secure economy, efficiency and effectiveness in the use of its resources; and
- We, as auditors, are required to form an opinion on the Council's annual financial statements and whether the Council has adequate arrangements to:
  – ensure financial resilience going forward; and
  – secure economy, efficiency and effectiveness in the use of its resources.

As such, in our 2010-11 audit plan for Plymouth City Council ("the Council") confirmed we would carry out a review considering financial resilience.

Code of Audit Practice

Under the Code of Audit Practice, we are responsible for issuing a conclusion on whether we are satisfied the audited body has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Our VfM conclusion for 2010-11 in the Council was informed, in part, by this review.

Scope and approach

In August 2011, we agreed the terms of reference for this review with senior officers at the Council. It was agreed that our work should be focused around the following questions:

- are the arrangements in place for financial planning adequate?
- are the arrangements for financial control appropriate?

To answer these questions, we have considered the over-arching arrangements in place for 2010-11 and 2011-12 and considered in detail three service areas:

- Finance, Assets and Efficiencies Department, in the Corporate Support Services Directorate; and
- Adult Social Care and Environmental Services within the Community Directorate.

Our approach has included a review of key documentation, such as;

- the Council's Corporate Plan 2011-2014;
- the Council's Medium Term Financial Strategy ("MTFS") approved in June 2011; and
- the Council's Budget Book (2011-12).

We have also interviewed the following officers:

- Head of Finance;
- Assistant Director for Finance Assets and Efficiency;
- Group Accountant for Finance Assets and Efficiency;
- Assistant Director for Democracy and Governance;
- Assistant Director for Information and Communication;
- Assistant Director for Human Resources and Organisational Development;
- Assistant Director for Adult Social Care; and
- Assistant Director for Environmental Services.

This report draws together the findings from our work. It includes an Executive Summary, which highlights the key messages, and a section that outlines our more detailed summary of our findings. The areas where we consider improvements need to be made are set out in the summary findings and then drawn together in the action plan included as Appendix A. This has been agreed with key officers and will form the basis for our follow up work, to be undertaken as part of our audit in 2011-12.

Use of this report

This report has been prepared to advise the Council of the matters arising and should not be used for any other purpose or be given to third parties without our prior written consent.

Our report is part of a continuing dialogue between the Council and ourselves and should not be relied upon to detect all opportunities for improvements in management arrangements that might exist. The Council should assess the wider implications of our conclusions and recommendations before deciding whether to accept or implement them, seeking its own specialist advice as appropriate.

We accept no responsibility in the event that any third party incurs claims, or liabilities, or sustains loss, or damage, as a result of their having relied on anything contained within this report.

The way forward

We have set out our recommendations in Appendix A to this report.

Our statutory requirements in 2011-12 remain unchanged and as such we are required to continue to assess financial resilience at the Council. This will involve assessing the progress made in the improvement areas identified within this review and through its delivery plans.

Acknowledgements

We would like to record our appreciation for the assistance and co-operation provided to us during our work by the Council staff.

2. Executive summary

The Council's arrangements for financial planning are adequate

We found that the Council's financial planning process is clearly linked to corporate priorities. The MTFS is supported by annual Delivery Plans produced by each service area. Delivery Plans show the savings that need to be achieved for budgets to balance each year. The planning process is documented, to ensure that key staff are aware of the arrangements in place, and the role that they need to play in ensuring that all financial plans are complete, comprehensive and robust. The planning process is regularly reviewed so that weaknesses can be identified and addressed for future years (we understand that improvements are already being instigated for the 2012/13 process). The assumptions upon which plans are built are routinely challenged. There is a wide level of participation in financial planning, internally and externally. Risks are assessed and quantified on an ongoing basis to indicate the likelihood of savings being realised and budgets being met.

However, there is scope to further improve the financial planning process

Whilst the findings above provide an adequate level of assurance in respect of the arrangements for financial planning, it is our view that additional attention to the following two areas would strengthen the arrangements further;

- challenging the assumptions behind the departmental budgets more deeply; and
- identify delivery plans to meet the shortfall expected in 2012/13.

The majority of service budgets are based on historic spending and operational practice and we consider that the Council would benefit from the wider use of zero based budgeting. Given the current and ongoing financial pressures facing the Council, we consider that a more detailed assessment of budgets is required in order to identify further potential savings and efficiencies.

In 2012/13, the MTFS showed an expected budget shortfall of £24.6m. Delivery plans identified £15.8m of this and the further £2.4m from additional Council Tax grant left a funding shortfall of £6.4m. The 2012/13 budget setting process has identified further delivery plans of £4.7m and together with the removal of growth of £1.7m has now achieved a balanced position.

The Council has arrangements in place for monitoring the use of financial resources across the Council.

The Council has systematic arrangements in place for financial control, which operate across all areas of the Council. In 2010-11, the Council overspent by 0.05% and in 2011-12, the projected outturn shows an overspend of 0.3~~6~~% which is attributed to demand pressures within Adult Social Care, Environmental Services and Democracy and Governance. We recognise that the Council has introduced plans to manage the impact of this on the budget.

Roles and responsibilities for delivering services within budget, and meeting the requirements of savings plans are clear. Reviews of performance against financial targets take place through meetings at all levels of the organisation (including Corporate Management Team (CMT), Departmental Management Team (DMT), Senior Management Teams (SMTs), Programme Boards and through thematic groups. Robust performance monitoring arrangements have been introduced and risk assessment is an integral aspect of financial control. Comprehensive performance reports (including financial and non-financial information) are presented to Cabinet on a quarterly basis.

Processes would be strengthened if action was taken to ensure that the best practice in place in some areas of the Council was implemented in all services areas.

The key areas where improvements could be made, to strengthen financial control, are as follows:

- ensure that delivery plans are developed that are realistic and achievable with alternative delivery plans in progress to replace intended plans that have not achieved the planned level of savings expected in 2011-12.
- ensuring an appropriate level of detail in all performance report; and
- monitoring the quality of delivery plans, to ensure that they consistently match the quality of the best.

3 Detailed findings

Financial planning

The Corporate Plan outlines four top level City & Council Priorities . These inform the Medium Term Financial Strategy, which sets out total revenue and capital resources available to meet these priorities and spending plans for the next three years. The Council's refinement of its priorities and focus on them throughout the planning process has helped to make the alignment of resources to the areas needs increasingly transparent.

The MTFS is regularly updated and was last revised in June 2011, to reflect the changes in funding announced in the Comprehensive Spending Review (October 2010) and the Central Government Finance Settlement (December 2010~~1~~). The current resources available are clearly set out and the need for transformational change to respond to the ongoing financial pressure is a theme throughout the document. By ensuring that the MTFS is updated to reflect significant changes to the financial position, be these due to internal budgetary pressures or external factors, the Council is ensuring its medium term financial planning is fit for purpose and focused on delivering the Council's core priorities.

A robust medium financial strategy should consider possible scenarios and model both changes in income, both funding and charging, and expenditure. At the Council the modelling in the MTFS reflects the following:

- A robust view of future Formula Grant and Council Tax over the medium term to determine the total available resources.
- Forecast spending plans for departments, reflecting known and anticipated expenditure pressures.
- Delivery plans, for all service and corporate areas, developed to balance the budget, year by year.

Annual budgets, at department and service level, sit below the MTFS and set out detailed spending plans and funding arrangements. Delivery Plans sit alongside the annual budgets and must be achieved in order for the budget to be met. Delivery Plans are considered to be realistic, looking only at what can be achieved in the coming year. Each year the Council aims to develop new plans to close the budget gap and ensure corporate objectives can be met within the given financial parameters.

The Council's expectation is that delivery plans encourage changes in operational practice and that the changes are embedded in the organisation. The intention is for the financial benefit to contribute to more efficient service delivery which is then reflected in the base budgets for subsequent years. This approach should be a more sustainable way of meeting objectives whilst under tight budgetary pressures.

To generate the required savings the Council has recognised that transformational change is required in the delivery of some services. In some cases this will mean the Council needs to make an initial investment to reduce future costs. An 'invest to save' reserve has been set aside and is used for this purpose.

The 'worst case' position set out in the latest MTFS indicates a balanced budget for 2011-12 with a shortfall arising in 2012/13 and beyond. It will be necessary for the Council to identify how up to £9 million of further savings each year will be delivered as part of the on-going MTFS review and subsequent budget setting process.

We consider that the Council should begin to consider and identify delivery plans for these schemes in order to avoid slippage and to ensure maximum delivery within 2012-13.

Recommendation 1

The Council should continue to develop delivery plans to meet the funding shortfall expected in future years.

The latest MTFS has been developed as a 'living' document with the three year period it covers moving forward, following the end of each financial year. This means historic performance against budget can be factored into the resource needs going forward. Structural changes to resource allocations or spending plans can then be made.

The MTFS should be reviewed on an ongong given:

- the process is based on the achievement of significant delivery plans to balance the 2011-12 budget as well as providing some mitigation against subsequent budgetary pressures.
- the latest MTFS is based on challenging income collection targets, as well as optimistic returns on Council investments for 2011-12, with further risks identified for the remainder of the term.

The MTFS includes sensitivity analysis showing the potential impact of a variation in budgetary assumptions. This approach sets out a summary of how base figures were arrived at as well as quantifying the impact of any deviation. This should assist CMT in monitoring future budgetary pressures and highlighting the financial impact of identified variances.

Throughout the budget setting process the budget and delivery plans are challenged and revised through CMT

The Council held a budget challenge process in January 2011 over two days. The Overview and Scrutiny Management Board heard from partners, cabinet members, directors and senior officers to consider the corporate plan and revenue and capital budgets. Recommendations were made to each department covering areas including impact assessments, savings schemes and performance targets.

In revising the latest MTFS, the Council consulted with:

- the Local Strategic Partnership;
- the Chamber of Commerce; and
- other partners and community groups.

The Council also consulted residents in Plymouth directly through the 'You Choose,' an on-line budget consultation tool.

External consultation is used as part of the budget challenge process. This allows the SMT to review the Council's matching of resources to priorities and ensure that stakeholders' views are responded to, where possible.

We consider that existing arrangements could be improved if the assumptions underlying the existing budgets were more rigorously and routinely challenged. There is an inherent reliance on historic activity and spending and zero based budgeting is only used to a limited extent, with few services having been fully rebased. We recognise that the resources required to roll-out zero based budgeting across the whole of the Council would be prohibitive, but the selective use of zero based budgeting focused on priority areas should enable the Council to benefit from this approach.

Recommendation 2

Zero based budgeting, focussed on priority areas, should be developed.

Financial Control

The MTFS sets out the need to deliver £13.3 million of savings through delivery plans in 2011-12 and the Council identified plans to deliver£15.7 million in the current year. Whilst this plan exceeds the required level it allows for some flexibility if any schemes do not deliver and for any additional savings made in the current year to be invested in future delivery plans.

Future spending plans are developed assuming that the savings in a previous years' delivery plans have been realised i.e. the costs saved are removed from the baseline budget. Therefore it is essential than mechanisms are in place to ensure that the expected savings are realised whilst the delivery of services the Council intends to provide are maintained within budget.

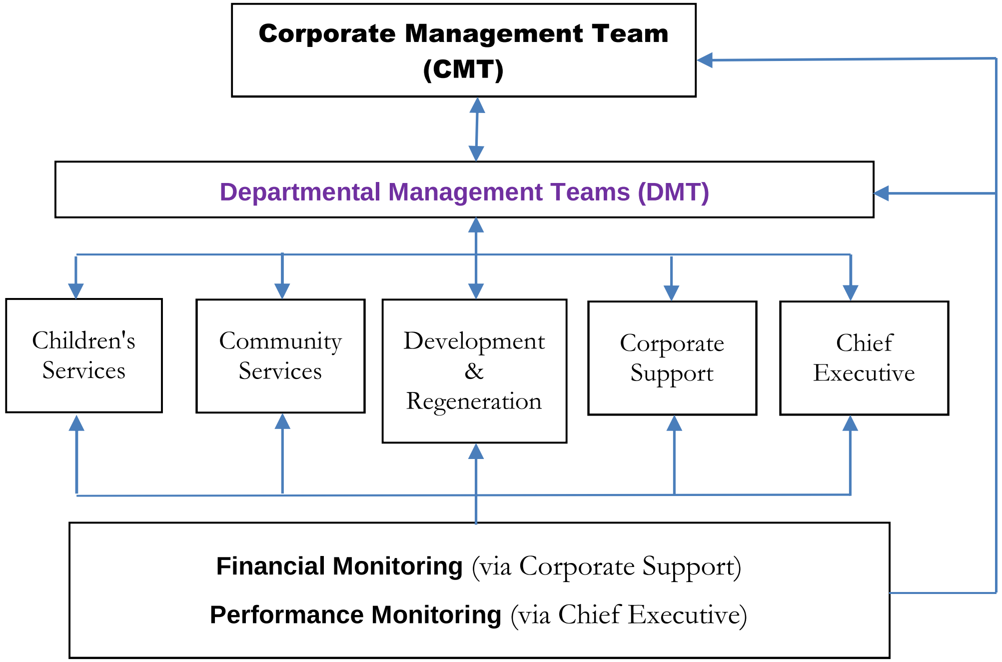
In July 2011 the Council reported its financial position for 2010-11 Total net spending was £201.9 million reflecting an overspend of £0.1 million (0.05%). This reflected an improvement on the £1.43 million (0.73%) overspend in 2009-10.

A scorecard including the following elements is presented each month at CMT:

- Financial Information — taken from the ledger and sets out spend and forecast outturn against budget;
- Performance Information — taken from performance management system and sets out position against KPIs; and
- Supporting Text — provided by Assistant Directors, by Service, and setting the context for the above position.

The scorecards are completed on a RAG (i.e. Red Amber Green) system, with each the ratings being clearly defined. Target performance and spending is profiled so that CMT can monitor the actual position, at a point in time, against expectations for the same period. This means the Council has stronger financial control than solely forecasting a position against year-end outturn.

A process has been established for jointly monitoring financial and operational performance. This is implemented consistently across the Council's services and is set out below.



In addition to monthly reporting to CMT the Council's performance is reported to Cabinet on a quarterly basis.

At a Directorate level the DMTs sit weekly and once a month a representative from the Financial and Performance Monitoring team attend to provide context to the finance and performance data so that the text supporting the monthly scorecard can be written. DMTs include the relevant Director and the Assistant Directors.

Some departments also have an Executive Board which is the forum where Cabinet member input is achieved. Some services also use a Programme Board with representation from various Corporate services to ensure agreement and sign-off of the respective RAG rating and the supporting text.

In addition, the Council holds regular 'budget challenge' meetings where all DMT members have the opportunity to challenge the position being described in other departments. This ensures transparency and also consistency of approach to reporting.

Delivery Plans

Delivery plans are the formal mechanism that the Council uses to set out how it will address the funding shortfall in 2011-12 and beyond.

The risks to achieving the savings set out in delivery plans are assessed and monitored on an ongoing basis. This reporting includes CMT and DMT as well as quarterly reporting to cabinet through the integrate approach described earlier.

In addition to risk assessment there is also a consideration of the impact that a failure to realise savings will have on:

- delivering priorities;
- meeting legal obligations;
- meeting customer expectations; and
- other services and partners.

Our detailed review of Environmental Services Plans identified examples where the plans were not robust and unlikely to be achieved within 2011-12. These examples included public toilets, playgrounds and bowling greens. We identified that the RAG ratings have changed from amber, when presented in the budget book, to red in performance reports in September 2011. Whilst we recognise that risk ratings will change, further investigations indicated that these examples were not based on robust data within the budget book. In addition, they did not have due regard of slippage time.

The following provides further information on these examples:

- Public Toilets - a footfall review is currently underway and the outcomes is not yet known, hence savings are unlikely to be realised in 2011-12;
- Playgrounds - dialogue is taking place relating to the transfer of ownership, but is likely to yield only minimal savings, hence the level of savings identified for 2011-12 are unlikely to be realised; and
- Bowling Greens - the original plan included a range of measures, none of which will be achieved in 2011-12.

As at the end of quarter two, £1.7 million (10.5%) of delivery plans were rated as 'red' and £5.3 million (33.7%) as 'amber'. This is a significant improvement on the position at the end of quarter one and the risk of non-delivery in both categories has reduced by a third.

The Council has taken action to progress a range of plans which were at risk, including domiciliary care, residential care for under 65's, a corporate services restructure, changes to procurement and agreement of revised terms and conditions across the Council. These delivery plans have involved a change in the way the Council delivers services and some difficult decisions about the resources available to do that. We commend the Council for taking action to minimise the impact on priority front line services.

However, we would reinforce the need to ensure that delivery plans are robust and realistic when set and acted upon from commencement of the financial year to ensure progress and reduce slippage. If they are not, the required level of savings will not be achieved and the budget will not be met. Where delivery plans are rated Red or Amber, alternative plans should be developed as a priority by Management Teams to mitigate the risk from plans which cannot be achieved or delivered in the timescale required.

Recommendation 3

The Council should continue to ensure that delivery plans are based on realistic assumptions and are deliverable in the planned timescales across departments with alternative delivery plans implemented where intended plans are unlikely to produce the planned level of savings.

Financial controls in Community Services

Adult Social Care

Adult Social Care (ASC) is the largest individual Department in the Council in budget terms. In recent years, ASC has been tasked with achieving significant savings whilst being exposed to significant demand pressures, largely arising from demographic factors and reforms to the system of social care in the UK. In 2010-11, ASC was originally required to identify savings in the delivery plan equating to £5.1 million which was later reduced to £4.6 million.

A complex performance management structure has been introduced within ASC to ensure effective performance and financial management. Within this structure a Programme Board has been established and it is this Board which monitors the delivery plan.

The 2011-12 budget contains £2.3 million of savings to be achieved in addition to those for 2010-11 which are now embedded in the revised base budget figure of £73.1 million. The latest Joint Performance and Finance Monitoring Report (JPFR) states that demand pressures related to Learning Disabilities and older people's mental health are ongoing, resulting in the current £0.8 million forecast overspend. However, there are programmes underway to seek to transform the way the service works and reduce the risks of this overspend being realised. This includes the Proof of Concept team which aims to carry out a service wide transformation of adult care services delivery and improve the joint commissioning arrangements.

Environmental Services

Environmental Services (ES) is the third largest individual Department in the Council in budget terms.

Based on a recent benchmarking exercise the Council considers there is limited scope within this Directorate to make significant savings although Council wide work on Terms and Conditions may provide one opportunity. Consequently the delivery plans focus on how these services are provided.

In 2010-11 ES had no savings targets allocated to them directly but followed the same reporting structure as the rest of the Council to assess performance against budget. ES mirrors the structure in place for ASC, having a Programme Board which includes representation from various corporate functions, and to which the Assistant Director (AD) reports. This Programme Board is chaired by the Community Services Director and, as a result, links to the Council-wide CMT monitoring process.

In addition the (AD) chairs a Delivery Board which meets monthly and is supported by six work stream groups as well as Corporate Resources. The Delivery Board reports directly to the Department Executive (being the Members with the Finance and Community Services Portfolio and the Community Services Director) so that that the monthly reporting of issues can flow upwards from individual officer work streams to Cabinet Members, via AD's and down to operating managers.

Financial controls in Corporate Support Services

Finance, Assets & Efficiencies (FAE) is the largest individual Department within the Corporate Support Directorate. In recent years, FAE has been tasked with achieving significant savings through delivery plans, with these largely relating to improving the efficiency of support services.

In 2010-11 FAE were originally required to generate savings in delivery plans equating to £0.3 million of the overall £0.5 million for Corporate Support Services with additional savings identified and then delivered through the year. Delivery plans in Corporate Services relate to cross-cutting saving requirements which benefit the Council as a whole, for example the accommodation strategy. These delivery plans have been apportioned across service departments and the relevant ADs in corporate services are directly accountable.

Within the overall structure, the Corporate Support Management Team operates as an Improvement Board for FAE, once a month. In this meeting the focus is on progress against key and cross cutting delivery plans. This process is largely the same as that described in ASC and ES and supports our conclusion that there is a clear framework and ownership for monitoring financial and operational performance.

Performance and Finance Reports

These reports present both financial and performance information on a quarterly basis to Cabinet. They also include progress on the delivery plans. Our review of these reports indicates that there is scope to improve the level of information included within them.

The key drivers behind the current position being reported is not presented within reports, but could offer a useful insight. The initial overspends relate largely to pressures on demand for the Council's Learning Disability Service as well as those related to Mental Health, Older People and Physical/Sensory Disabilities services. It is not clear how the forecasting of the Council's demand led services has been established and the level of detail in JPFR documentation is fairly limited. Our review of Health and Adult Social Care Overview and Scrutiny Panel minutes provide only limited information and so it is not clear how robust the review and discussion of performance has been.

Recommendation 4

Keep the content of the joint performance and finance reports under review to ensure that they contain sufficient detailed information in order that appropriate action can be taken, where performance or spending is not in line with expectations.

Appendix A – Action plan

Rec No	Recommendation	Priority	Management Comments	Responsibility and deadline
1	The Council should continue to develop delivery plans to meet the funding shortfall expected in and future years.	High	Budget setting process has closed the gap for 2012/13 and narrowed the gap considerably for 2013/14. Officers will continue to monitor the position for 2013/14 and 2014/15 and incorporate funding allocations as they become known.	Director for Corporate Support / CMT On-going
2	Zero based budgeting, focussed on priority areas, should be developed across the Council.	Medium	The movement to three Directorates offers the opportunity to further challenge all areas of spend. Management accept the principle of ZBB where appropriate/cost effective to implement	Director for Corporate Support / CMT As part of 2013/14 budget
3	The Council should continue to ensure that delivery plans are based on realistic assumptions and are deliverable in the planned timescales across departments with alternative delivery plans implemented where intended plans are unlikely to produce the planned level of savings.	High	Both CMT & SMT continue to challenge across departments to test robustness of Plans. 2012/13 Budget process included cross-departmental budget delivery plan challenge sessions. Plans will continue to be reviewed and reported via monthly (internal) and quarterly (public) reports	Director for Corporate Support / CMT On-going
4	Keep the content of the joint performance and finance reports under review to ensure that they contain sufficient detailed information in order that appropriate action can be taken, where performance or spending is not in line with expectations.	Medium	Management acknowledge the importance of the reports and the need to be able to make informed decisions.	AD FAE / Head of Finance On-going