

# Plymouth City Council

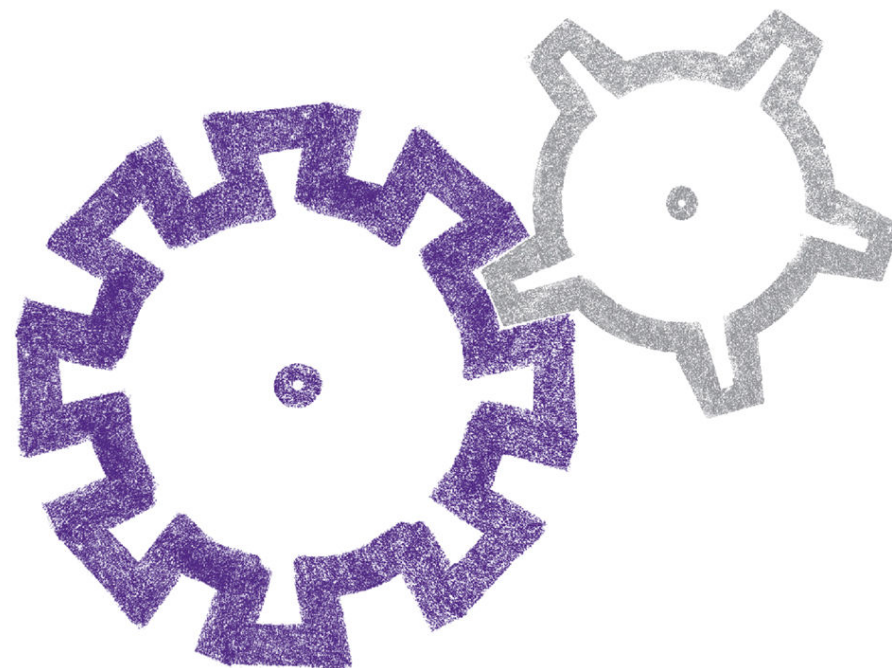
## Review of the Council's Arrangements for Securing Financial Resilience

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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 comprises 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.

In addition, as part of our VfM conclusion work, we have also reviewed the Council's achievement of strategic priorities for 2011/12. As part of that review, we examined the Council's performance management and financial reporting. Where findings of this review are relevant to our work on We have therefore made reference to the findings in that review that are relevant to the financial control and planning sections of this report.

Further details on all other areas examined as part of our financial resilience work are provided in the sections of the report that follow.

We have used a red / amber / green (RAG) rating with the following definitions.

#### Green

**Arrangements meet or exceed adequate standards.**  
Adequate arrangements identified and key characteristics of good practice appear to be in place.

#### Amber

**Potential risks and / or weaknesses.** Adequate arrangements and characteristics are in place in some respects, but not all. Evidence that the Council is taking forward areas where arrangements need to be strengthened.

#### Red

**High risk:** The Council's arrangements are generally inadequate or may have a high risk of not succeeding

# Executive Summary

## National and Local Context

### National Context

The Chancellor of the Exchequer announced the Spending Review (SR10) to Parliament on 20 October 2010. This formed a central part of the Coalition Government's response to reducing the national deficit, with the intention to bring public finances back into balance during 2014/15.

The associated report published Government Departmental Expenditure Limits (DEs) for the four-year spending review period: 2011/12 to 2014/15. CLG funding was reduced by 26% over the period.

The CSR represented the largest reductions in public spending since the 1920's. Revenue funding to local government will 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 have been frontloaded, with 8% cash reductions in 2011/12.

The provisional Local Government Finance Settlement was announced on 13 December 2010. The final figures were announced on 31st January 2011 with the debate and approval by the House of Commons on 9th February. This represents a two year funding announcement, because the Government is delaying a decision on later years until after their review of local government finance.

This follows a period of sustained growth in local government spending, which increased by 45% during the period 1997 to 2007. The 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.

### Local Context

Plymouth City Council has been a Unitary Authority since 1998 serving a population of over 250,000. The Council has an overarching vision to be one of Europe's "finest, most vibrant waterfront cities where an outstanding quality of life can be enjoyed by everyone" underpinning this ambitious vision are four key priorities to deliver growth, reduce inequality, raise aspirations and provide value for communities. Providing value for communities encompasses many aspects of the Council's strategic and operational vision. It is also a driver to increase economic efficiencies, partnership working and financial planning for the future.

2011/12 was the base year for the transformation process as service redesign is implemented, efficiencies embedded and the idea of a cooperative Council takes shape. 2011/12 saw the council move from five directorates into three, the redesign of the Revenue and Benefits services and the need to make savings, in line with the medium term financial plan of £13m on a net revenue budget of £208.24m. From a base year start, 2011/12 appears to be successful with total savings being achieved. However, the council recognises the difficult financial climate that lies ahead over the next three years as uncertainty continues regarding Central Government funding, Council Tax income generation, changes to the NNDR pooling system, continued economic downturn, reduced school grant funding due to increases in academies, increases in pay awards and pension fund revaluations. As a result of the many financial risks facing the council savings amounting to £30m by 2014/15 need to be made. Given the uncertainty of medium term financial planning due to external forces our attention has focused upon the strategic financial planning of the council.

## Executive Summary

### Overview of Arrangements

Risk area	Summary observations	High level risk assessment
<b>Financial Resilience</b>		
<b>Key Indicators of Performance</b>	<p>We have used the Audit Commission benchmarking of key indicators for 2009/10 and 2010/11, Where possible, we have updated this information with knowledge of the 2011/12 data e.g. working capital and sickness absence where Plymouth are outliers. We have discussed the results with officers. Our analysis shows that Plymouth have followed the performance trends for the group across the majority of areas with the exception of working capital ratio. However, the two outliers mentioned above need further attention:</p> <ul style="list-style-type: none"> <li>- <b>Working capital</b> - it is generally accepted that a working capital ration of 2:1 is required to ensure immediate liabilities can be covered and therefore at 1.21:1 the Council is some way short of this . The 2011/12 results show that this has deteriorated even further. Management have concluded that there is no obvious reason for this other than it is in accordance with the Council's treasury management strategy.</li> <li>- <b>Sickness absence</b> is still higher than the target of 6 days at 8.7 but is improving from the 2009/10 average amount of 10 days per employee. The Council are continuing to work on this area and reviewing the target amount of 6 days to ensure that consideration is given to the possible disparity of working requirements between manual and clerical staff.</li> </ul>	<p style="text-align: center;">● Green</p>
<b>Strategic Financial Planning</b>	<p>The Council have strong arrangements in place to plan the finances of the council over the next three years. The Council have incorporated finance and performance management reporting, performed scenario planning on income and expenditure levels, considered central government funding, and income levels linked to corporate priorities and targets for NNDR, council tax and fees and charges..</p>	<p style="text-align: center;">● Green</p>

## Executive Summary

### Overview of Arrangements cont.

Risk area	Summary observations	High level risk assessment
<b>Financial Resilience</b>		
<b>Financial Governance</b>	<p>The council has sound governance arrangements for financial planning and monitoring, reporting. In 2011/12, and now for 2012/13, the council introduced a scrutiny regime to plan and agree the budget for the forthcoming year, with officers, members and more importantly - partners. The arrangement included away days for members and officers and members were given the opportunity to challenge draft budgets prior to finalisation ensuring that savings plans and budgets were closely linked to corporate plans and visions. We have suggested improvements to the reporting of performance data - in particular, we have recommended that the Council now move towards better integration of performance reporting and how this can be used to highlight the achievement of the Corporate objectives</p>	<p>● Green</p>
<b>Financial Control</b>	<p>The Council has a good track record of achieving its planned budget. The Council reported a planned overspend of £113k in the draft financial statements for 2011/12. The council have Financial information and reporting is undermined by the existing financial systems. The Council intend to improve the payroll system and expand upon improvements in the revenues and benefits systems experience in 2011/12 in 2012/13.</p> <p>The Council has achieved its savings target of £13m for 2012/13 although recurrent savings are still in need for the medium term financial stability of the council.</p> <p>Internal audit provide a service that is in accordance with CIPFA standards, however we have recommended that improvements are made on the timeliness of completion of the annual audit plan and progress reporting to members.</p>	<p>● Green</p>

## Executive Summary

Area of review	Key points for consideration	Responsibility	Timescale	Management response
Strategic Financial Planning	The Council should reconsider the use of zero based budgeting as a more effective methodology. A review of the budget setting process will take place during the 2012/13 financial year - this is an opportune time to evaluate the budget setting process.	Director for Corporate Services supported by CMT/Finance	March 2013	CMT have had discussions with finance around a full review of the budget setting process. We still embrace the ZBB concept but need to understand the value added v resource required. For the 2013/14 budget we have undertaken a thorough challenge of each budget line of each department. In Environmental Services we have undertaken an overview approach to ZBB and a top level review of ASC. We will continue to consider options as part of the wash up on the 2013/14 process and how to improve going forward.
	The Council need to consider the use of scenario planning as part of the development of the Medium term financial plan. This is particularly relevant given the uncertainty surrounding future government funding, inflation, returns on investments and pension fund revaluations.		March 2013	Agreed – in part we already take this approach. Where we can improve is by making our approach more transparent.
Financial Governance	<p>Reporting to Cabinet should include a clear evaluation of outturn for each service against delivery plan forecasts and the link to the achievement or non achievement of corporate priorities.</p> <p>The Council should also consider mapping financial resources and changes to resources to corporate priorities as part of the finance and performance reporting.</p>	Head of Finance	On-going	<ul style="list-style-type: none"> <li>From August 2012 Finance have produced a supplementary finance short report each month between the full 1/4 reports. This reports on the position regards delivery plans. The full 1/4ly report is being strengthened to ensure resource allocation is included.</li> <li>Budget setting process for 2013/14 has included a more robust challenge from portfolio holder for finance to directors plus portfolio holders</li> </ul>



## Executive Summary

### Next Steps

Area of review	Key points for consideration	Responsibility	Timescale	Management response
Financial Control	We will continue to work with internal audit and discuss the improvements required for the reporting of audit plan progress to the Audit Committee. In addition to this, we would reiterate our recommendation that the timeliness of work and finalization of audit reports on the key financial systems is improved. Management and Internal audit need to agree a timescale that ensures that all work on the key financial systems is completed by April 2013.	Devon Audit Partnership	April 2013	<ul style="list-style-type: none"> <li>The timings of Audit Committee meetings do not lend itself to accurate reporting on a quarterly basis but Internal Audit did present a 5 monthly summary to the September Committee, will report 8 months to December Committee and plan to provide a 10 monthly summary to the March Committee in addition to their annual report each June Management and Internal Audit have agreed timescales for the audits of the key financial systems with a view to ensuring that the work is completed by April 2013.</li> </ul>

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## Key Indicators

### Introduction

Ratio analysis has been added to this report to establish consistency and outliers on various ratios as detailed below. The results for Plymouth are highlighted in the summary and the detailed graphs reported on in Appendix A. The data has been obtained by the Audit Commission, using audited accounts for the years 2009-10 and 2010-11. Where possible, we have updated this analysis using our knowledge of the draft financial statements as presented to audit on 28 June 2012. It is important to reflect on the figures for 2011/12 as these provide further context to the findings of the previous two years. The indicators used include:

- Working capital ratio
- Useable Reserves: Gross Revenue Expenditure
- Long term borrowing to tax revenue
- Long term borrowing to long term assets
- Schools Reserves - Balances to DSG allocations
- Sickness absence levels
- Out-turn against budget

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




Sunderland City Council  
North East Lincolnshire Council  
Calderdale Metropolitan Borough Council  
Wirral Metropolitan Borough Council  
Sefton Council  
Plymouth City Council  
Bristol City Council  
Blackpool Council  
Derby City Council  
Coventry City Council  
Dudley Metropolitan Borough Council  
North Tyneside Council  
Gateshead Metropolitan Borough Council  
Darlington Borough Council  
Southampton City Council  
Redcar and Cleveland Borough Council

## Key Indicators

### Overview of performance

Area of focus	Summary observations	Assessment
<b>Performance Against Budget</b>	<p>The Council have achieved the planned outturn against budget for the past 3 years, keeping within the corporate set target of no more than a 1% overspend of net expenditure. In 2011/12 the Council have reported a £113k overspend - 0.004% of net expenditure for the year. The Council achieved its level of savings of 2011/12 £20m by reducing back office costs, restructuring departments and rationalising assets.</p>	<p>● Green</p>
<b>Reserve Balances</b>	<p>Reserve analysis indicates that the Council have maintained the planned useable and unusable reserve balances year on year. This is an area that the Council continue to focus upon in the medium term and have already set clear targets for these areas across the next 3 years. The one concern is the waste reserve which has been set to cover increased landfill charges whilst the incineration plant is built and becomes fully operational in 2015. The Council have considered that this reserve may not be sufficient to fulfil all waste charges and costs and will have to work towards rectifying this position in line with all the other savings that need to be made across the medium term.</p>	<p>● Green</p>
<b>Schools Balances</b>	<p>The council have remained within the target group for school balances although these have reduced, largely because of the movement towards Academy status over the past two years.</p>	<p>● Green</p>

## Key Indicators

Area of focus	Summary observations	Assessment
<b>Liquidity</b>	<p>Liquidity ratio analysis suggests that the Council's working capital is well below the average considered acceptable. The Council utilised short term borrowing which increased to £90m at the end of 2010/11. Cash and cash equivalents have continued to decrease as the council have reduced the short term investment portfolio given the downward economic climate. For 2011/12 the draft statement of accounts suggest a deteriorating working capital ratio of 1.09:1. The Council need to review the composition of the working capital element. In particular, attention needs to be made to the availability of cash and cash equivalents to fund short term borrowing and creditors.</p>	 <b>Amber</b>
<b>Borrowing</b>	<p>The Council are considered to be well within the requirements for borrowing at present. The current economic pressures have resulted in a shift in treasury management strategies whereby the council have tried to utilise short term borrowing in 2011/12 against internal sources given the low return on investments. The original plan for 2011/12 was to start to repay the long term debt off, however, it was deemed to be cheaper and more VfM to use investments that were not receiving large returns to fund capital or funding in year or utilise cheaper short term borrowing opportunities. The final outturn for 2011/12 shows no change to the long term borrowing of the council but only £15m in short term borrowing as opposed to £96m at the end of 2011, which would suggest a healthier debt position overall.</p>	 <b>Green</b>
<b>Workforce</b>	<p>The Council's sickness levels deteriorated in 2010/11 to a level above 10 days per person on average. The performance outturn figures for 2011/12 suggest that this has improved in 2011/12 and is down to 8.7 days against a target of 6. There is clearly more work for the council to do on this area. 2011/12 was a year of significant change where the council moved from 5 directorates to 3 - redundancies were made. There was also a redesign of the benefits and revenue sections. The council are currently reconsidering the stretch target of 6 days leave per member of staff. This is on the basis that there may be disparity between the working conditions of manual and clerical staff and therefore a flat target of 6 across the council may not be reasonable.</p>	 <b>Amber</b>

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**Appendices**

Appendix A - Key indicators of financial performance

## Strategic Financial Planning

### Key indicators 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 MTFS focuses resources on priorities.
- The MTFS 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 MTFS 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 MTFS 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 MTFS.

# Strategic Financial Planning

## Medium Term Financial Strategy

Area of focus	Summary observations	High level risk assessment
<p>Focus of the MTFS</p>	<ul style="list-style-type: none"> <li>The Medium Term Financial Strategy (MTFS) is informed by the four top level City and Council priorities from the Corporate Plan. It is comprehensive and sets out the 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 budget planning process has helped to make the alignment of resources to areas of needs increasingly transparent.</li> <li>The MTFS provides a forecast of the Council's future financial position with consideration of inflation, cost savings and reduction in grant income. The MTFS further considers reserve balances as part of the forecasting, with the aim of balancing the budget so that reserves are not impacted in future years.</li> <li>As in previous years the Council uses an incremental budgeting approach to budget setting. A recommendation has been made to apply zero based budgeting as this approach to budgeting starts from the premise that no costs or activities should be factored into the plans for the coming budget period- rather, everything that is to be included in the budget must be considered and justified. Effective implementation of such an approach needs to be controlled and focused and the continuation of incremental budgeting in key services needs to be effectively challenged and linked to the Council's strategic objectives. The Council has undertaken to review the budgeting approach but no change will be made before 2013/14 planning.</li> <li>The Comprehensive Spending Review (CSR) requires the Council to bridge the gap between income and expenditure against a background of 7%+ annual reductions in grants over the next four years. This has been fully considered within the updated MTFS and appropriate actions taken to ensure that service requirements can be met. The MTFS has profiled income over the next four years and made assumptions where funding has yet to be confirmed.</li> </ul>	<p style="text-align: center;">● Green</p>



# Strategic Financial Planning

## Medium Term Financial Strategy

Area of focus	Summary observations	High level risk assessment
<p>Scope of the MTFP and links to annual planning</p>	<ul style="list-style-type: none"> <li>The MTFP is very much a 'living' document updated each year as pressures and opportunities are identified. It is in the process of being revised following the new administration's 100 pledges as published in June this year.</li> <li>Annual budgets, at department and service level, sit below the MTFP 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. The Council's expectation is that delivery plans encourage changes in operational practice and that the changes are embedded in the organisation.</li> <li>The MTFP is also aligned to the Plymouth Report and Corporate Plan. There are clear links between the MTFP and corporate priorities - e.g. children and adult services and funding for these being ring fenced over the next 3 years to ensure that objectives can be delivered.</li> <li>The capital programme is closely linked to the delivery of the savings and budget plans with clear profiles of how capital expenditure will be funded through borrowing, capital receipts and Section 106 funds. There are strong links to the Treasury Management strategy. Currently, there is a considerable redesign of the capital programme as a result of the need to consider redevelopment of areas within Plymouth. It is anticipated that an investment fund will be set up in late 2012 to assist in the funding of future regeneration and redevelopment expenditure.</li> </ul>	<p style="text-align: center;">● Green</p>

# Strategic Financial Planning

## Medium Term Financial Strategy

Area of focus	Summary observations	High level risk assessment
<p>Adequacy of planning assumptions</p>	<ul style="list-style-type: none"> <li>The Council has undertaken sensitivity analysis looking at factors that may impact spending such as pay, superannuation, inflation and Social Care Commissioning. There is potential for scenario planning to be carried out in conjunction with the sensitivity analysis and, whilst not vital, would add further robustness to the process.</li> <li>Detailed savings plans have now been identified for 2012/ 13 and 2013/14 concentrating upon the need for strategic partnerships and reduced back office costs but ensuring that frontline priority services such as Education and children are supported through reduced cuts and focused funding - e.g. looked after children where there is a need to increase staffing levels and resources to ensure care plans are in place against national and local targets.</li> <li>Revenue delivery plans have been devised and the governance of these noted but detail of what these will involve has not been included. The ownership and therefore ultimate responsibility will lie with departmental Directors and an overview will be provided by the CMT. Reports will continue to go to Cabinet highlighting detailed performance against departmental budgets and savings plans</li> <li>Delivery plans will be monitored by Departmental Management Teams (and/or Improvement Boards) against their three year departmental budgets using the existing, risk rated 'Delivery Plan' process.</li> <li>The plan assumes a Council Tax freeze in 2011/12 and 2012/13 which enables the Council to claim the Council Tax Freeze Grant. This equates to £2.4m over each of the next two years but no further funding for 2013/14 and 2014/5 has been included. The forecasted funding shortfall rises from £6.4m in 2012/13 to £9.1m in 2014/15 The Council have identified that in total by 2015 £30m of savings will be required to fund the budget gap and there is a clear uncertainty around what the future funding from Central government will look like because of changes to the RAG, Council tax funding, benefits system and subsidy, NNDR allocations etc. This is an uncertainty that is nationwide and Plymouth have worked with the information that they have focusing upon the need to identify further savings across services where corporate priorities allow.</li> <li>The council has created a number of specific reserves and provisions in order to plan in advance for known and anticipated future revenue costs. These are planned over the four year cycle and with the exception of Insurance and Invest to save are forecast to be nil as at 31 March 2015. These will be reviewed annually to provide assurance that the balances are adequate and must ensure that all known items are included.</li> </ul>	<p style="text-align: center;">● Green</p>

# Strategic Financial Planning

## Medium Term Financial Strategy

Area of focus	Summary observations	High level risk assessment
Review processes	<ul style="list-style-type: none"> <li>• Delivery plans are the responsibility of the departments and are monitored by the departmental directors. These have been developed as part of the budget setting process and are formally reviewed and agreed by Cabinet as part of the budget process. The MTFS provides sufficient data at an overall Council and departmental level but further information could be included to demonstrate how the levels of savings have been identified and will be monitored on an on-going basis. Reporting is carried out on RAG risk rating approach to show whether targets are being met or not.</li> <li>• A treasury management policy is in place that is reviewed and approved by Cabinet. The policy is now much more risk adverse following the collapse of the Icelandic banking institutes and entails only investing with a small number of financial institutions with the highest possible credit rating backed by added security.</li> <li>• The capital programme, budget savings and directorate performance are all reported to Cabinet on a monthly basis .</li> </ul>	<p style="text-align: center;">● Green</p>
Responsiveness of the Plan	<ul style="list-style-type: none"> <li>• The MTFS is revised and adjusted on an annual basis before being adopted by Cabinet. The strategy is adapted to reflect changes in national legislation and local priorities. In 2011/12 the strategy had to be adapted to highlight further savings following as community assets were not passed to the community to own. Further savings were found in the corporate services directorate and benefits sections.</li> <li>• Future years will be reviewed during the lifetime of the plan and this process has already begun for 2013/14 .</li> </ul>	<p style="text-align: center;">● Green</p>

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Appendix - Key indicators of financial performance

## Financial Governance

### Key indicators 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	High level risk assessment
Understanding the Financial Environment	<ul style="list-style-type: none"> <li>• The Strategic Directors fully understand the financial environment in which they operate. i.e. - all the Directorates have weekly management meetings and will regularly discuss key financial and performance issues as required. Performance against budget will be reviewed monthly.</li> <li>• The Audit Committee receive updates on the risk management strategy and the risk registers on a regular basis.</li> <li>• Budget holders receive monthly budget reports.</li> <li>• Members are involved in the budget setting process. There is an away day arrangement each year where members and officers meet to discuss the draft budget. Members can scrutinise and have actively challenged the draft budget assumptions to ensure that consideration is given to meeting corporate priorities and the 2011/12 and 2012/13 budgets have been adjusted following this challenge.</li> <li>• Training is provided to members and finance staff on an on-going basis.</li> <li>• Joint finance and performance reports are presented to Cabinet on a quarterly basis. We suggest that that these reports be improved to clearly identify links between financial outturn and the achievement of the Council's objectives and priorities.</li> <li>• There is a corporate scorecard showing performance against departmental budgets and whether delivery plans are on schedule or not.. Areas of overspend and failure to meet targets are covered through individual Director's reports and scrutinised at Cabinet.</li> <li>• The finance summary takes into account the current position and projected outturn that is monitored against the latest approved budget. The summary includes a delivery plan update which includes a RAG rating to give an idea of progress.</li> </ul>	<p style="text-align: center;">● Green</p>

## Financial Governance

### Understanding and engagement

Area of focus	Summary observations	High level risk assessment
Executive and Member Engagement	<ul style="list-style-type: none"> <li>The Council has effectively engaged with various stakeholders within the community through two surveys. These are:               <ul style="list-style-type: none"> <li>Place survey: Biennial survey carried out to inform services delivered by Plymouth City Council and partners</li> <li>Ofsted Tellus Survey: An online survey that gathers the views of children and young people</li> <li>Police, NHS, Education were involved in the awayday for the budget setting process for 2011/12 and 2012/13. - Further consultation activities are also undertaken including:                   <ul style="list-style-type: none"> <li>Plymouth LINK: Allows the local population to have their say about health and social care services in the city</li> <li>Over 50s: Specifically targeted review and consultation to inform the Council's strategy for over 50s</li> <li>Young People and children: UK youth Parliament</li> <li>Councillors and committees: General public access to meetings or through raising questions within Cabinet</li> </ul> </li> </ul> </li> <li>The last place survey was carried out in 2008 and therefore it is doubtful that the findings from that are still being used to inform the MTFS or Council strategy. This is mitigated through the Plymouth Report process that was commissioned in 2010 and covered a number of cross cutting themes and issues that arose from data gathering exercises conducted within Plymouth both by and for the council.</li> <li>A scrutiny of the financial performance is undertaken by the Overview and Scrutiny Committee and all findings are reported to, and reviewed by, Cabinet</li> </ul>	<p style="text-align: center;">● Green</p>
Overview for controls over key cost categories	<ul style="list-style-type: none"> <li>The Council are aware of the high cost areas such as Adult Social Care and Children's services and have assigned performance indicators and targets for these areas. It is recognised that these services need to improve in some target areas, eg looked after children and responsiveness of care plans, but there has been minimal cuts to budgets. This trend will continue over the next three years given the priorities assigned to these areas. Management scrutinise high cost low performing areas. In 2011/12 the Revenues and Benefits service was redesigned as a result of the need to make the service more cost effective. The redesign has been of benefit resulting in reduction in costs and improvement in performance. There is still a need for further improvement to achieve performance targets and indicators.</li> </ul>	<p style="text-align: center;">● Green</p>

## Financial Governance

### Monitoring and review

Area of focus	Summary observations	High level risk assessment
<p>Review of accuracy of Committee/Cabinet Reporting</p>	<p>In 2011/12, the Council established a reporting package which combines the budget outturn and the performance outturn for the performance indicators at levels 2 &amp; 3.</p> <p>The delivery plans are monitored on a regular basis and in 2011/12 progress against the delivery plans was reported to Cabinet as an appendix to the finance and performance reports. This enabled members to have a snapshot of progress the delivery of savings.</p> <p>A final outturn of the delivery plans for 2011/12 was not included in the June 2012 revenue outturn report to Cabinet, although the achievement of the delivery plans can be taken from the overall outturn of the revenue budgets for each directorate. It is noted, however, that the delivery plans set out the savings and / or additional income to be achieved over a three year period .</p> <p>A summary of the achievement against the 2011/12 and potentially future year savings plans is likely to enhance the transparency of the information presented to Members and the public in relation to the achievement of the efficiencies for 2011/12.</p>	<p style="text-align: center;">● Green</p>



## Financial Governance

### Monitoring and review

Area of focus	Summary observations	High level risk assessment
<p>Performance Management of Budgets</p>	<ul style="list-style-type: none"> <li>The council have improved reporting since previous years. Largely because of the need to ensure that the £13m savings were being monitored and achieved in 2011/12, performance management reports contain a large amount of detail. Each directorate has to report the initial budget, performance against budget, forecaste outturn and details of progress against savings plans. These are reported to cabinet each month.</li> <li>The financial and performance for each directorate have been reported throughout the year to Members through Budget Challenge Scorecards. These set out any key risks to the budget and performance targets, identifying the impact on performance on resources and vice versa. The scorecards also provide Members with a useful picture of how the Plymouth service compares with other unitary councils / family benchmarking group where data is available . To enhance the reporting and challenge process in future years, the Council should consider areas of best practice including mapping resources to objectives and priorities and ensure that the allocation of resources to one area can be clearly mapped to the priorities and objective / measurement outcome that is set to be achieved. For example, the investment in children's social care is directly linked to the overall achievement of reducing Inequality in the City and will include outcome measures for reducing child poverty, child protection plans.</li> <li>By setting out the resource allocation in line with the outcome measures, the Council will have a framework to demonstrate how the resources at the Council are being used to the most effective way, not just to reduce spend and increase efficiencies, but also to deliver on the priorities for the Council and the wider Plymouth area. we have therefore recommended that the Council review the presentation of the initial budget reports to include clearer links between allocated resources and the priorities and outcome measures for the Council.</li> </ul>	<p style="text-align: center;">● Green</p>

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**5 Financial Control**

Appendix - Key indicators of financial performance

## Financial Control

### Key indicators 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.

#### Finance Department

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

#### Financial Systems

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

#### Internal Control

- Strength of internal control arrangements - 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 is how business risks are managed and controlled.
- The Annual Governance Statement gives a true reflection of the organisation.

## Financial Control

### Internal arrangements

Area of focus	Summary observations	High level risk assessment
<b>Performance Management of Budgets</b>	<ul style="list-style-type: none"> <li>As mentioned above -The council have improved reporting since previous years. Largely because of the need to ensure that the £13m savings were being monitored and achieved in 2011/12, performance management reports contain a large amount of detail. Each directorate has to report the initial budget, performance against budget, forecast outturn and details of progress against savings plans. These are reported to cabinet each month.</li> <li>The financial and performance for each directorate have been reported throughout the year to Members through Budget Challenge Scorecards. These set out any key risks to the budget and performance targets, identifying the impact on performance on resources and vice versa. The scorecards also provide Members with a useful picture of how the Plymouth service compares with other unitary councils / family benchmarking group where data is available . To enhance the reporting and challenge process in future years, the Council should consider areas of best practice including mapping resources to objectives and priorities and ensure that the allocation of resources to one area can be clearly mapped to the priorities and objective / measurement outcome that is set to be achieved. For example, the investment in children's social care is directly linked to the overall achievement of reducing Inequality in the City and will include outcome measures for reducing child poverty, child protection plans</li> </ul>	<p style="text-align: center;">● Green</p>




## Financial Control

### Internal arrangements

Area of focus	Summary observations	High level risk assessment
<p><b>Performance against Savings Plans</b></p>	<p>The 2011/12 budget setting process included the setting of financial delivery plans for each of the five directorates, identifying where savings would be made over a three year period. This process involved a number of senior officers coming up with their own delivery plans in relation to the savings to be made over three years . By identifying the saving to be made in totality, senior officers were then involved in identifying and suggesting they key areas across the Council where savings could be made.</p> <p>Involving the directorates and the officers, enabled the Council priorities to be communicated at the initial discussions, and for officers to be able to identify where savings could be made that would either not impact, or improve performance within their own departments. This approach, against the alternative of a percentage cut for each directorate has enabled a number of transformation schemes to take place . These risk based delivery plans used within each Directorate follow a standard template which outlines the areas of savings to be made, the value of these savings over the three year period, the year in which they will be achieved and the individuals responsible.</p> <p>In addition, each saving area identified within the delivery plan sets out the impact (if any) on the Council priorities (linked to one or more of the four top level priorities) along with legal concerns, customer impact and the implications for other service areas or partners. By explicitly stating the impact on these objectives, it enables the Council to have a framework for budget savings that ensures that each transformation and saving plan to be delivered is, in some way, contributing to the delivery of the objectives.</p> <p>However the delivery plans are focused primarily on the delivery of savings and how these savings are aligned to one or more of the four priorities. The delivery plans for each directorate do not currently show how the planned resources for the year are being used to contribute to the performance and outturn of the Council.</p>	<p style="text-align: center;">● Green</p>
<p><b>Finance Department resourcing and qualifications / experience</b></p>	<ul style="list-style-type: none"> <li>• The Section 151 Officer is responsible for Internal Audit, the Corporate Finance Team and the Shared Transaction Service (STS).</li> <li>• The turnover within the finance function is low, The finance staff have a vast amount of experienced and sound knowledge of the councils budget and financial outturn.</li> </ul>	<p style="text-align: center;">● Green</p>

## Financial Control

### Internal and external assurances

Area of focus	Summary observations	High level risk assessment
Summary of key financial accounting systems	In the main these are sound. Our external audit work has not identified any significant issues in the main financial systems that the Council operate. However, it should be noted that the introduction of the new Asset register in 2010/11 required a large amount of work and rescripting to ensure that asset values were shown at gross book value rather than net. The work in 2011/12 has identified that the reporting ability of the asset register is limited and not easily adaptable for year end reporting. A number of errors have been identified with the PPE balances for 2010/11 and this has resulted in a number of restatements included in the 2011/12 accounts.	 <b>Green</b>
Internal audit arrangements including compliance with CIPFA Code of Practice for Internal Audit	Internal audit provide a satisfactory service and are compliant with the CIPFA code. However, in 2011/12 Internal audit had a number of staffing and capacity problems which has resulted in the late completion of work and final reporting to the Council and external audit. We have also undertaken a review of the reports presented by Internal Audit to Audit Committee members this year. In that review, we concluded that improvements could be made for reporting progress against the audit plan and the follow up of recommendations. We are currently working with internal audit to establish a more effective method of reporting to Audit Committee members.	 <b>Amber</b>
External audit arrangements and programme of activities	<p>External audit have identified key areas of risk as part of the 2011/12 audit plan. The audit of the draft financial statements considers these risks and a programme of work has been designed to incorporate specific testing as part of the audit of the financial statements for 2011/12. The work programme of external audit is:</p> <ul style="list-style-type: none"> <li>• an evaluation of the systems and controls in place within the council's main financial systems</li> <li>• a review of internal audit's work on significant financial systems</li> <li>• the audit of the financial statements for 2011/12</li> <li>• a review of the Council's ability to achieve value for money - specific work has been performed on:               <ul style="list-style-type: none"> <li>- the achievement of the strategic priorities</li> <li>- waste contract overview</li> <li>- Financial Resilience 2011/12</li> <li>- Follow up of 2010/11 recommendations from the Procure to Pay and Project Management.</li> </ul> </li> </ul>	 <b>Green</b>

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Appendix A - Key indicators of financial performance

# Key Indicators of Financial Performance

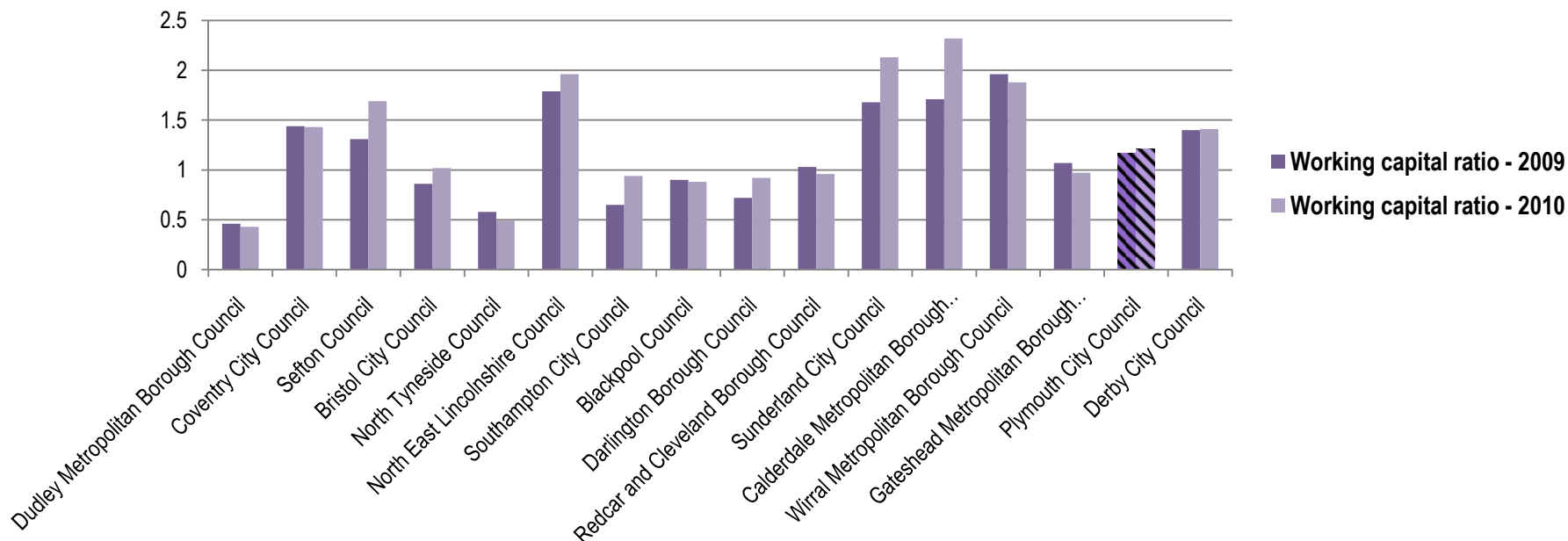
## Working Capital - Benchmarked

### 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. The Council are, however, abiding by the treasury management strategy.

### Findings

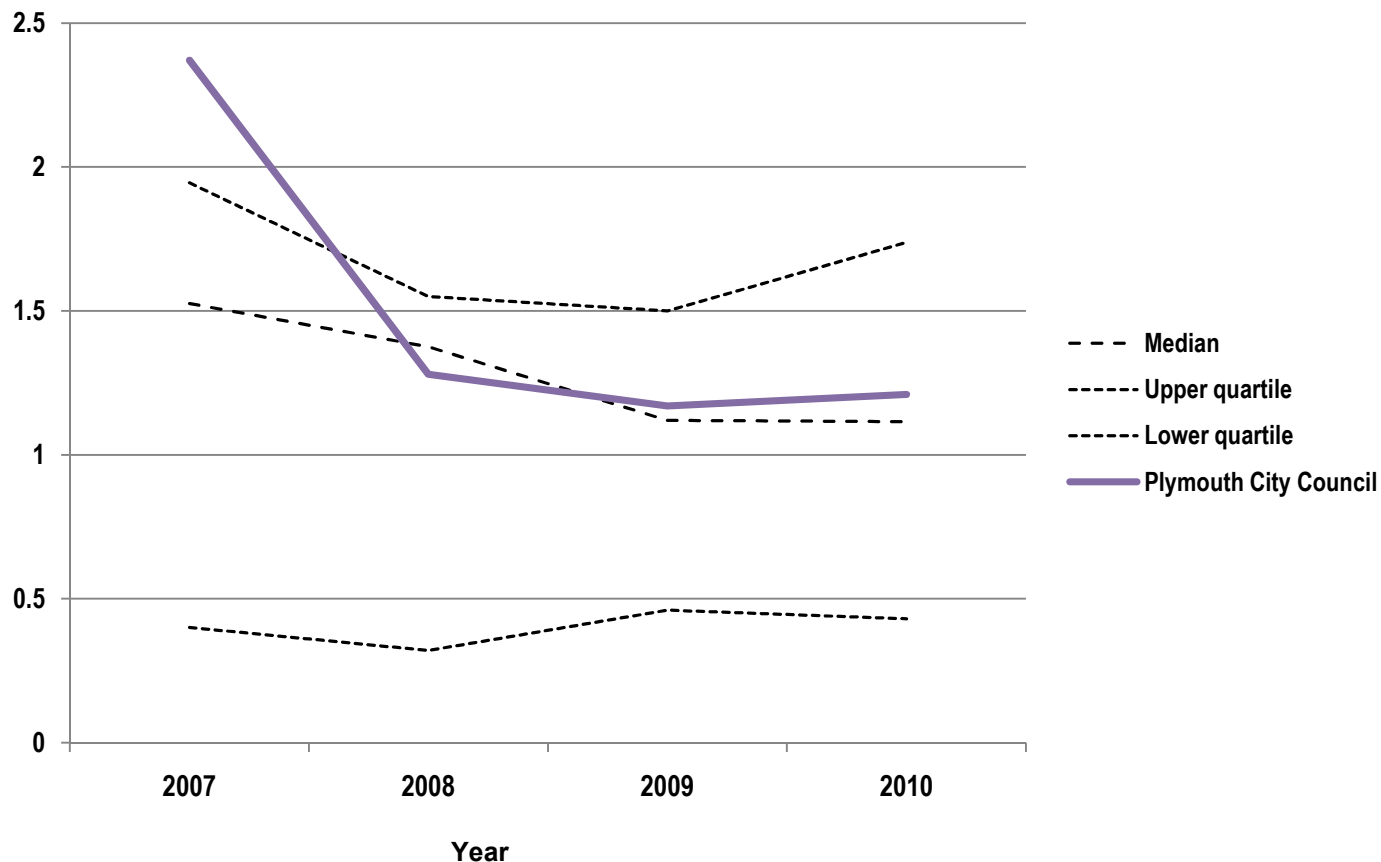
Plymouth City Council currently have a working capital ratio of 1.21:1 this is currently below the suggested level of 2:1 as outlined above. Plymouth are, however, within the average performance level in comparison with its statistical nearest neighbours i.e. those considered most like the Council. In 2010/11 the position did improve from 2009/10 where the ratio was 1.17:1. In 2011/12 the working capital ratio has been calculated as 1.09:1.





# Key Indicators of Financial Performance

## Working Capital - Trend



Trend analysis for working capital again demonstrates that Plymouth City Council's liquidity has decreased.

Their position has gone from the upper quartile to median within the group and the ratio has fallen to well below the recommended 2.5:1. Although the overall trend within the group is for slight deterioration the performance of Plymouth has deteriorated much more sharply.

Source: Audit Commission's Technical Directory

# Key Indicators of Financial Performance

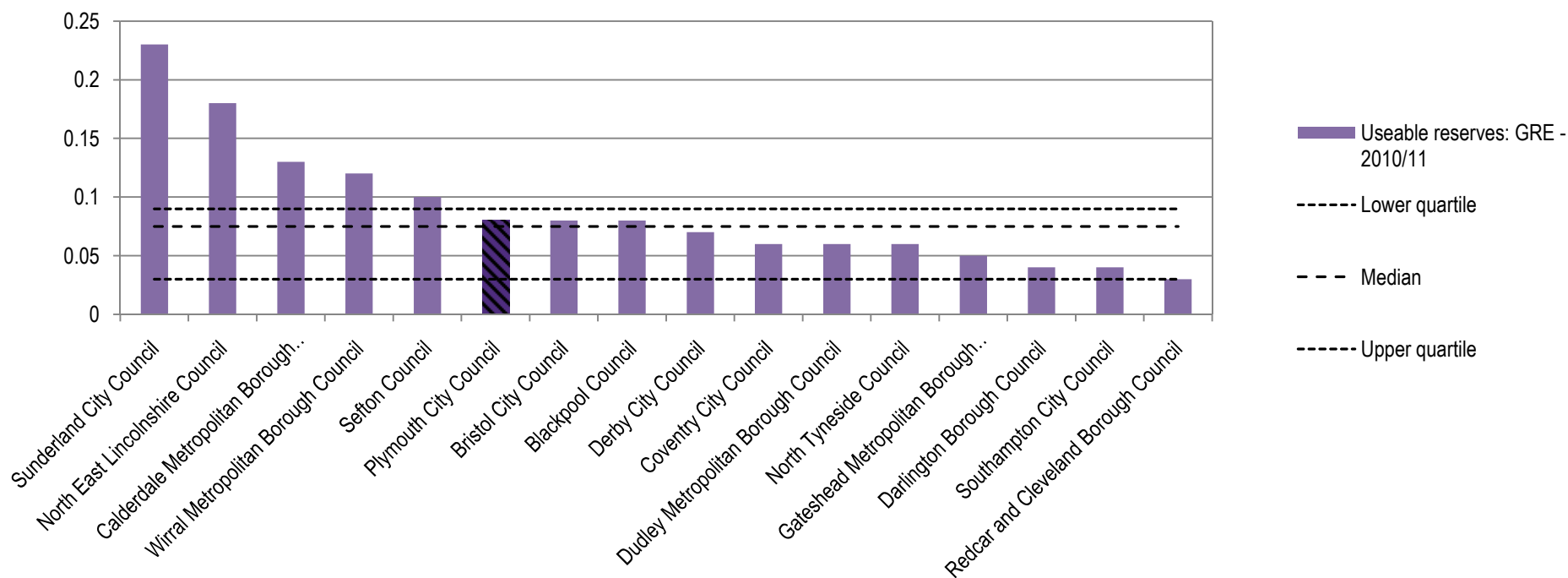
## Useable Reserves - Benchmarked

### 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.

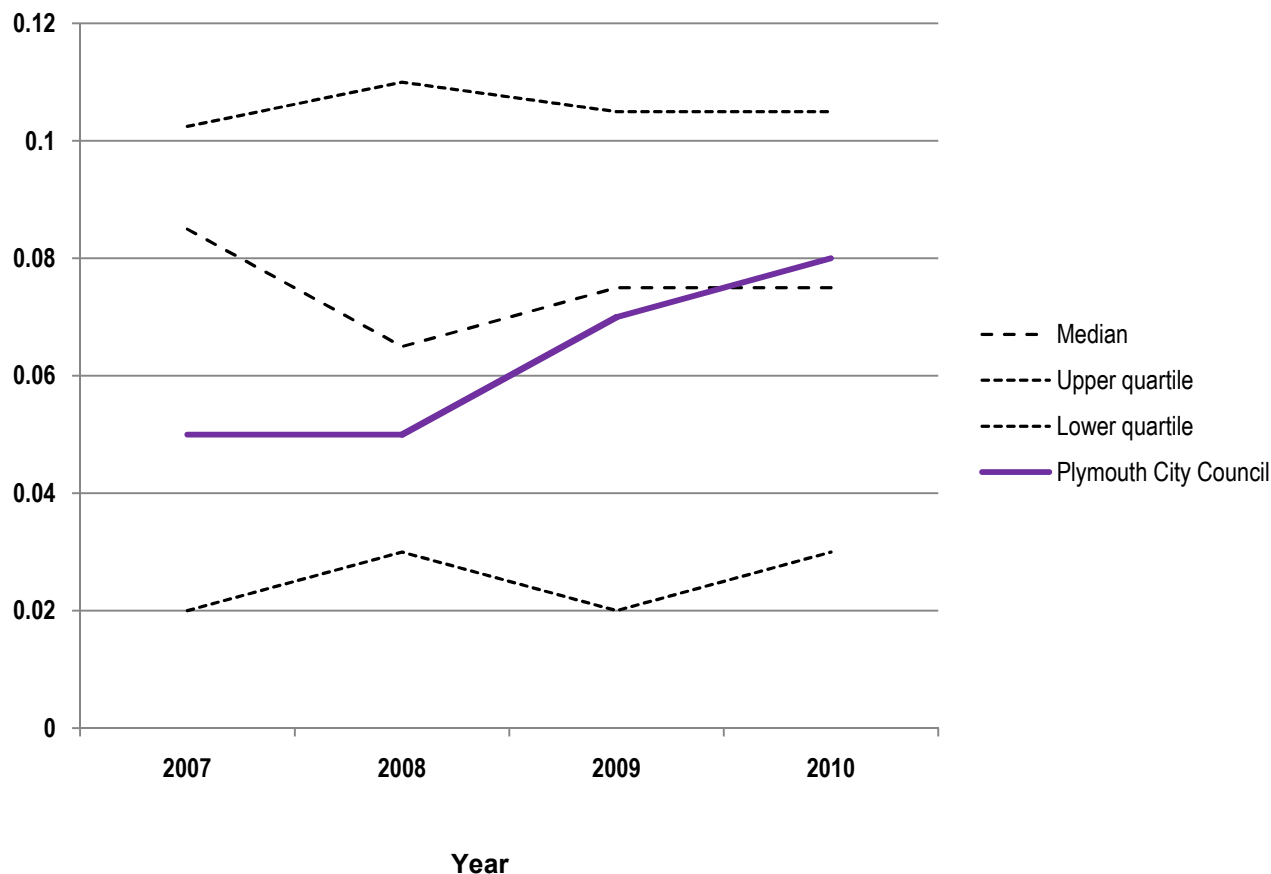
### Findings

From 2009/10 Plymouth City Council has marginally increased the value of its useable reserves, from 0.07 to 0.08 in 2010/11. This means they are above average within the group and have taken some steps to addressing any reserve balance issues. The improvement is mirrored by the majority of the group within the current year and, as shown on the next page, over the past four years.



# Key Indicators of Financial Performance

## Useable Reserves - Trends



**Plymouth City Council's useable reserves as a percentage of general gross revenue expenditure has increased over the past three years which mirrors the performance of the comparator group as a whole with the exception of those in the median quartile.**

**Plymouth City Council's performance has moved towards the median quartile over the past four years. It should be noted that although the performance has improved it is only marginal which again mirrors the performance of other Councils within the group..**

Source: Audit Commission's Technical Directory

# Key Indicators of Financial Performance

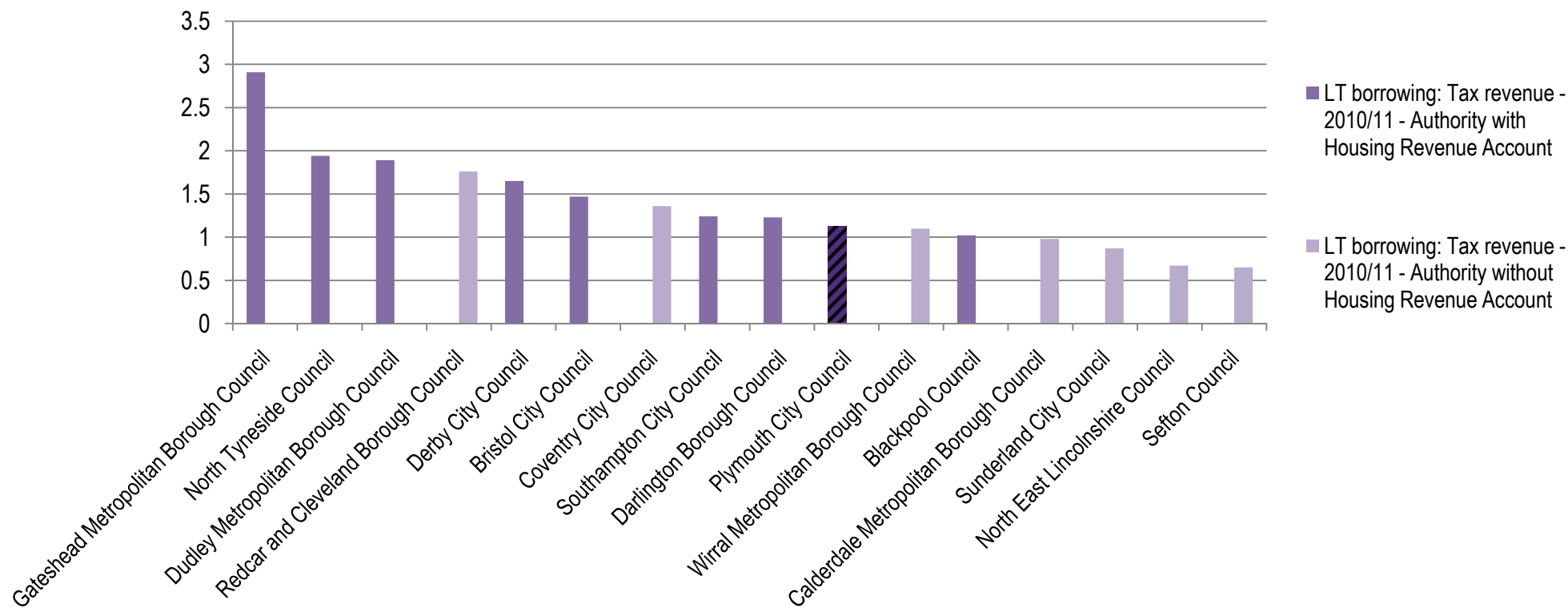
## Long Term Borrowing to Tax Revenue - Benchmarked

### Definition

Shows long term borrowing as a share of tax revenue. A ratio of more than one means that long term borrowing exceeds council tax revenue.

### Findings

Plymouth City Council has a ratio of 1.13:1 as a result of having a number of long term investments which is consistent with previous years. Plymouth's performance is towards the middle in terms of other Councils but is still in a position of having more long term borrowing than tax income. Only four councils receive more income than outstanding long term borrowing



# Key Indicators of Financial Performance

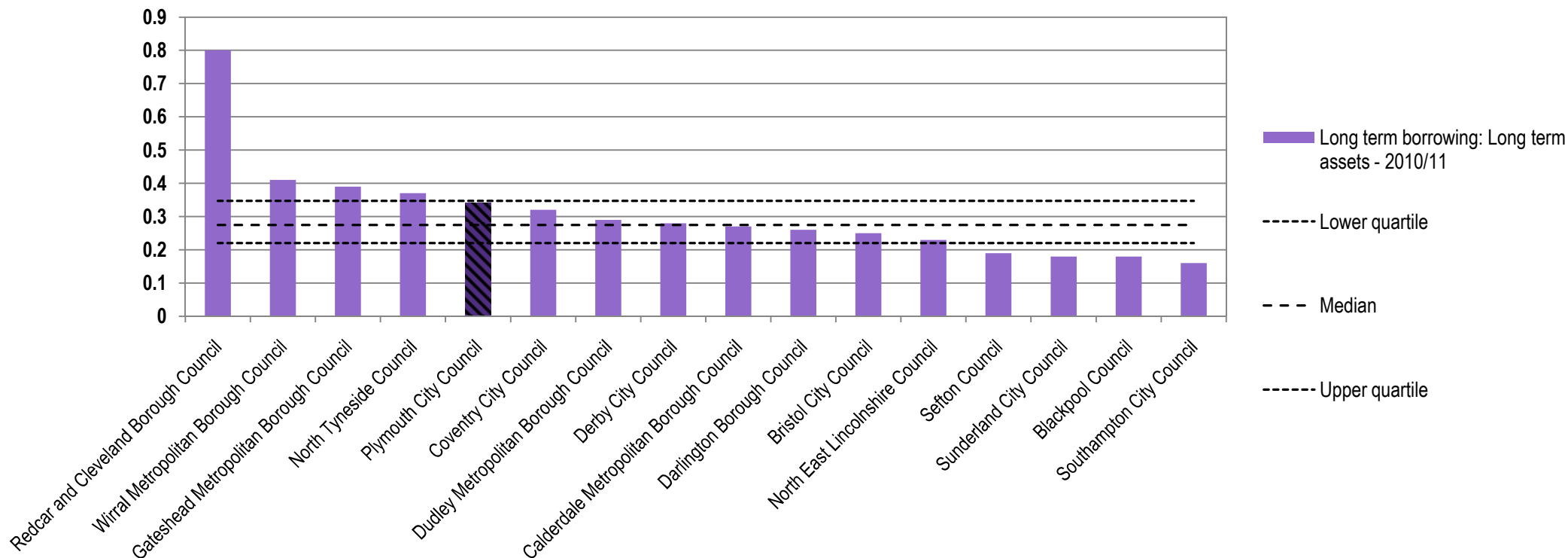
## Long-term borrowing to Long-term assets - Benchmarked

### Definition

This ratio shows long term borrowing as a share of long term assets. A ratio of more than one means that long term borrowing exceeds the value of long term assets.

### Findings

Plymouth have a ratio of 0.34:1 as a result of having few long term investments which is in line with previous years. The majority of Councils within the comparison group have a ratio of 0.4:1 or less which indicates that there are few issues that will arise.



# Key Indicators of Financial Performance

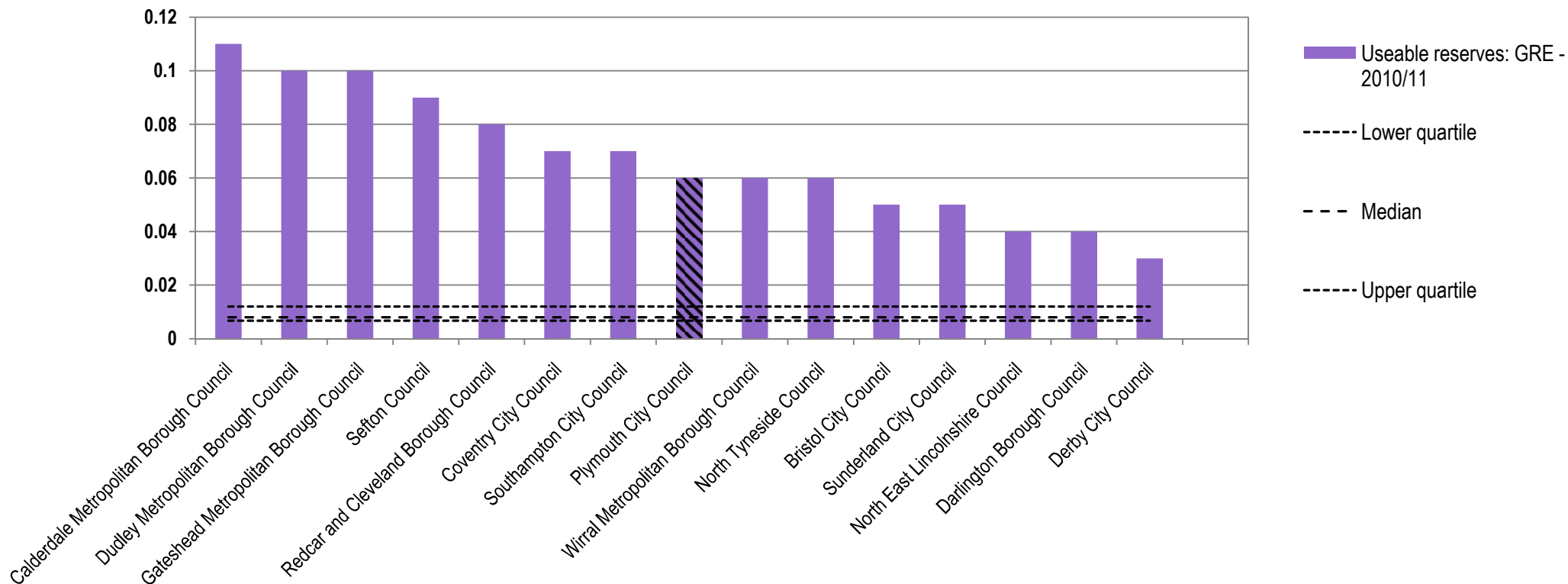
## Schools balances to DSG allocation - Benchmarked

### Definition

This shows the share of schools balances in relation to the total DSG allocation received for the year. For example a ratio of 0.02 means that 2 per cent of the total DSG allocation remained unspent at the end of the year.

### Findings

Plymouth's ratio has decreased by 1% from 0.07 in 2009/10 to 0.06 in 2010/11. This is in line with the broad trend of the benchmark group. Plymouth has remained within the median over the two years but it should be noted that they are one of only two Councils to have improved their position.



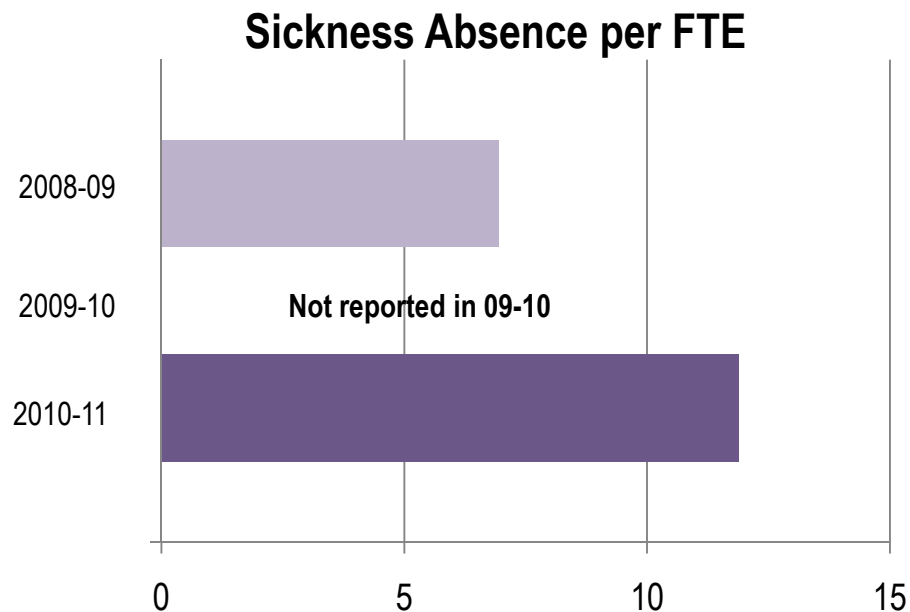
## Key Indicators of Financial Performance

### 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".



Source: Annual performance reports

#### Findings

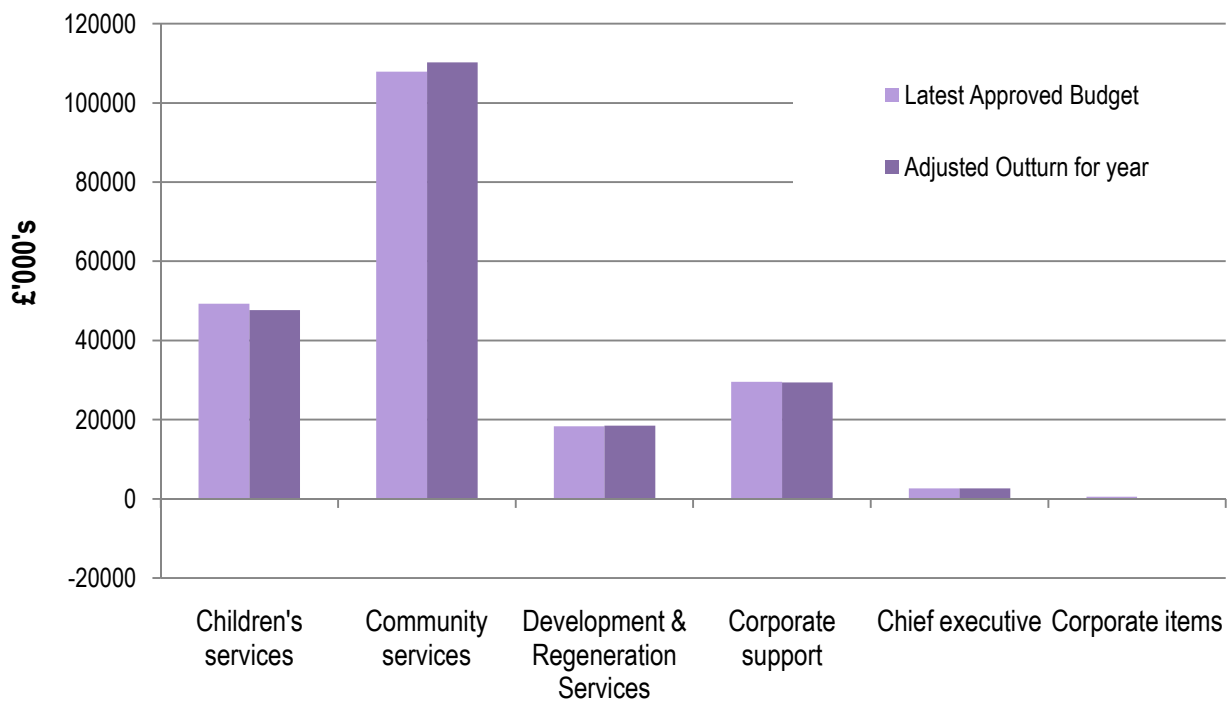
Plymouth's sickness absence levels have increased in the years between 2008-2011 by 4.94 (71%) .

The Council has a well regarded workforce management database, outputs of which form part of the finance and performance monitoring reports.

Sickness absence levels have an appropriate profile with senior management and actions are agreed and minuted by CEMB. Given the significant organisational change that is taking place during 2011/12, it will be important for CEMB to maintain a robust approach to sickness absence monitoring for the recent downward trend to improve.

# Key Indicators of Financial Performance

## Performance Against Budget: Major Variances from Working Budget



**Plymouth continue to contain expenditure within planned limits and adjustments.**

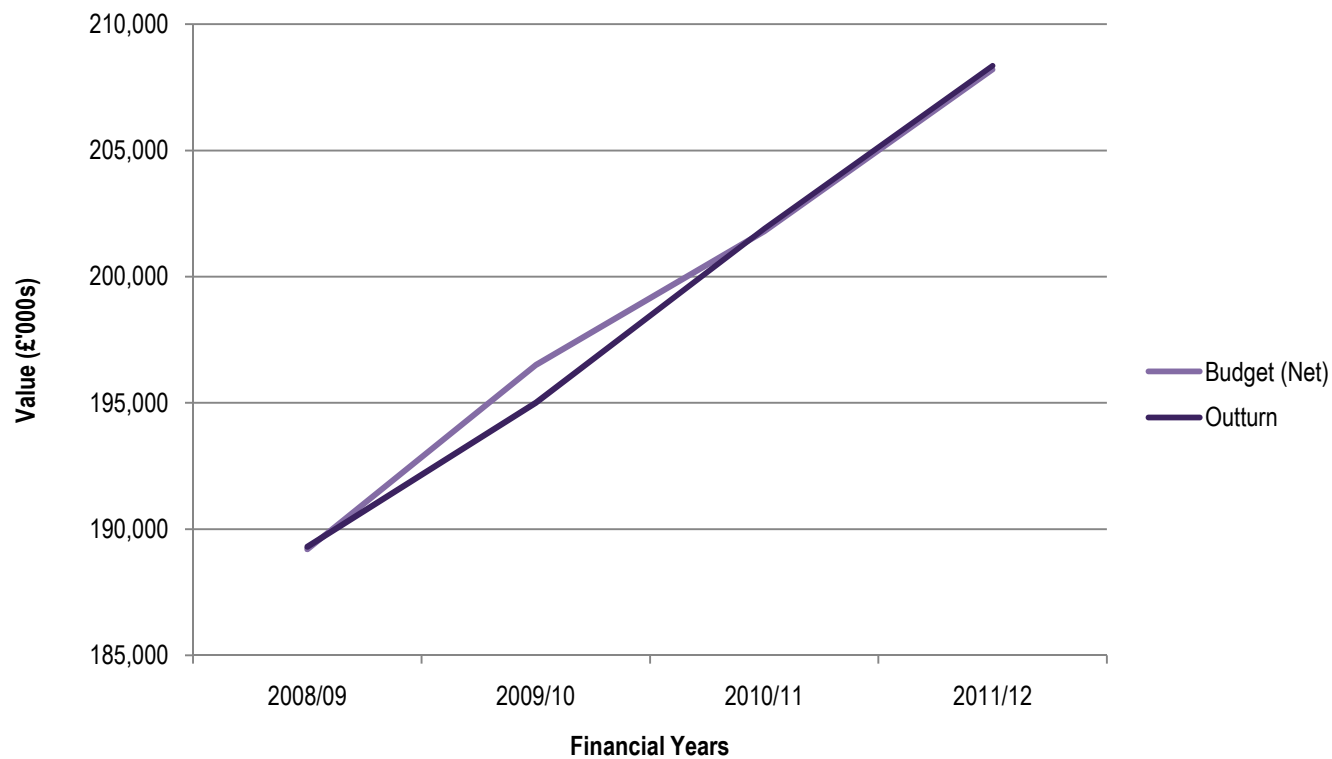
Source: Finance report presented to Cabinet in February 2012.



# Key Indicators of Financial Performance

## Performance Against Budget: Track Record

**Outturn v Budget: Trend**



The Council continue to maintain expenditure at a level that is in accordance with budget plans, forecasts - managing outturn at year end.

Source: : Annual audited financial statements and 2011-12 finance report presented to Cabinet in February 2012.



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