

Review of the Council's Arrangements for Securing Financial Resilience: Plymouth City Council

Year ended 31 March 2013

13 September 2013

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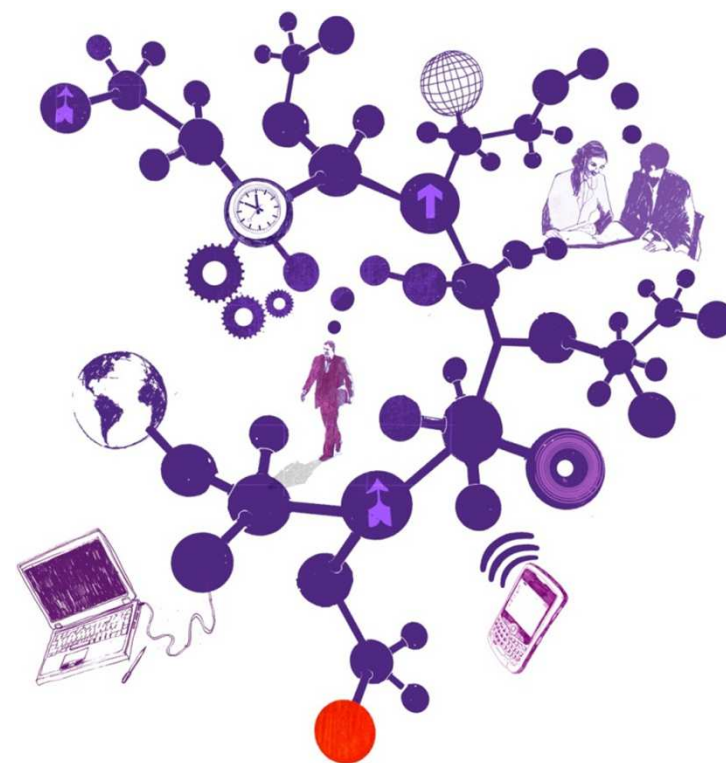
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to 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.

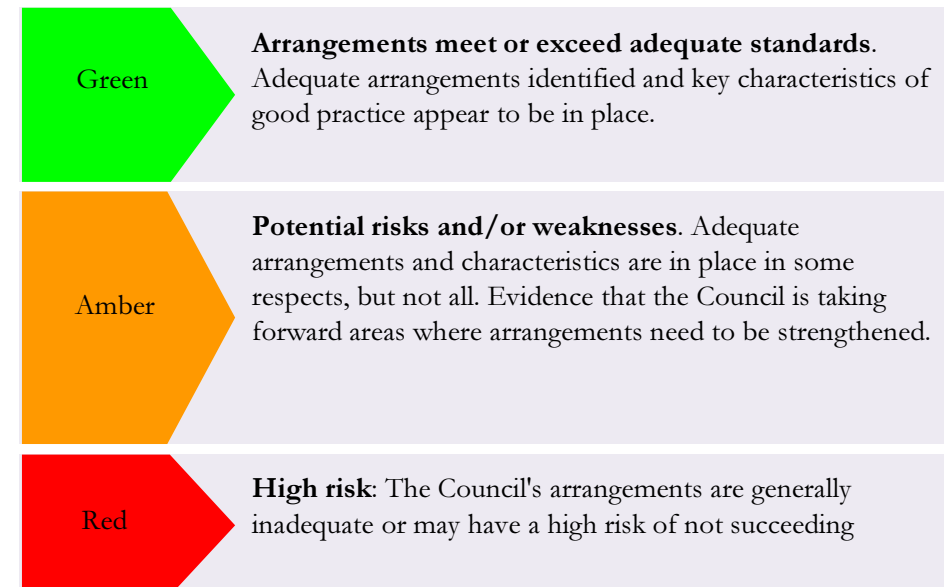
We have reviewed the financial resilience of the Council by looking at:

- 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 Plymouth City Council has adequate arrangements in place to secure financial resilience in the short term and we are therefore proposing to issue an unqualified VfM Conclusion for 2012/13. Over the longer term, uncertainties in the public finances will continue to affect the Council.

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 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

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 is the Council's corporate plan, '*the brilliant cooperative Council*', which sets out its core values and its four objectives to create a 'fairer Plymouth':

- **Pioneering** – designing and delivering better services in spite of reducing resources;
- **Growing** – creating opportunities for better learning and greater investment;
- **Caring** – putting citizens at the heart of decision making and reducing health and social inequality; and
- **Confident** – growing the City's reputation nationally and internationally.

The Council had a net budget of £204m in 2012/13, a reduction of £3.5m on the previous year, although the fall is more significant in real terms, once the effect of inflation is taken into account.



Executive Summary

Overview of Arrangements

Risk area	Summary observations	High level risk assessment
Key Indicators of Performance	<p>The Council achieved the planned outturn against budget for the last four years to within its own accepted tolerance of 1% of the net expenditure. However, as shown on page 39, the budgets in the last three years were all overspent. The overspend in 2012/13 of approximately £500,000 masks some large overspends, particularly within Adult Social Care, which were compensated for by savings elsewhere.</p> <p>The Council's General Fund reserves are within its own target of 5% of net expenditure, although these balances have reduced by 8% since 2009.</p> <p>The Council's liquidity is below the recommended optimal level, although the position has stabilised in 2012/13.</p> <p>The collection rates for both Council Tax and Non Domestic rates both increased slightly but remain below the Council's own targets and the national averages for 'all Councils' and 'all unitary Councils'.</p> <p>Levels of sickness absence are on a downward trend, but are still higher than the averages for comparable organisations in the public sector.</p>	 Amber
Strategic Financial Planning	<p>The Council's current medium term financial strategy (MTFS) was approved by the Cabinet in June 2012. This strategy used 2012/13 as the base year and projected ahead to 2015/16.</p> <p>The Council is now updating its medium term financial strategy using the 2013/14 as the base year. It plans to produce a three year indicative financial framework to support the Council's revised Corporate Plan (i.e. to 2016/17). This will be supplemented with figures for the following two years, meaning that the medium term financial strategy, once produced, will be over a five year horizon.</p>	 Green

Executive Summary

Overview of Arrangements

Risk area	Summary observations	High level risk assessment
Financial Governance	<p>There is a good level of involvement from Senior Officers and Members in setting the Council's budget and supporting savings plans.</p> <p>There is a thorough scrutiny process in place which involves Members, partners and other stakeholders.</p> <p>There is clear financial reporting throughout the Council on its revenue and capital budgets and its savings plans. However, the finance reports to the Cabinet do not include the wider elements of financial management such as Council's cash flow position, key financial ratios or balance sheet position.</p> <p>The delivery against the savings plans should be reviewed in order to assess the reasonableness of the original plans and the actions taken to implement these.</p> <p>There is scope to improve the clarity of the Council's performance reporting and to align the performance reporting and financial reporting more closely.</p>	 Green
Financial Control	<p>As noted above, the Council has a good process for setting its budget and it has a track record of delivering its budget to within the tolerance of 1% of expenditure. There were however, some large overspends in 2012/13 which were compensated for by savings elsewhere.</p> <p>The internal controls within the Council's key financial systems are considered to be adequate and we are working with your Internal Auditors to establish a more effective method of reporting to the Audit Committee.</p> <p>The Council has entered into a waste PFI contract with Devon County Council and Torbay Council and needs to clarify the accounting and governance arrangements as a matter of urgency, as the scheme becomes operational in the next financial year. Specific recommendations in this area have also been included in our Audit Findings Report following our audit of the draft financial statements for 2012/13.</p>	 Green

Executive Summary

Next Steps

Area of review	Key points for consideration	Responsibility	Timescale	Management response
Key Indicators of Performance	Review the collection procedures for Council Tax and non domestic rates with a view to increasing the collection rates to the national average.	Strategic Manager – Revenues & Benefits	Immediate Effect	We will continue to enhance our methods of collection, accepting the changing economic factors that impact.
	The Council should continue to actively monitor sickness absence to identify the causes of the comparatively high levels, implement appropriate strategies to address these and ensure potential risks in relation to service delivery are effectively managed.	CMT	Implemented and on-going	We have set individual departments targets with thresholds. Monthly management reviews and reports are reported to Cabinet members for scrutiny. In addition, for departments where thresholds are breached, we hold absence review panels with the relevant ADs and Manager.
Strategic Financial Planning	Finalise the medium term financial strategy, covering the three years to 2016/17 and the indicative figures for 2017/18 and 2018/19, in time to inform the 2014/15 budget setting process.	Assistant Director – FETA	On-going	Detailed plans are in place to achieve publication to Scrutiny in January 2014 and Council in February 014. Council meeting on 16 th September 2013 seeks approval for the Strategy for Cooperative Council 3-year sustainable plan.
Financial Governance	Consult with Members on the type and volume of financial information they would find helpful.	Assistant Director – FETA	On-going	We continue to work with the members to enhance the reporting framework and information supplied in line with their expectations.
	Seek to clarify the Council's performance reporting and align the performance reporting and financial reporting more closely.	Assistant Director – FETA & Head of PPP	On-going	Management are working on a strategy to align these two important strands.

Executive Summary

Next Steps

Area of review	Key points for consideration	Responsibility	Timescale	Management response
Financial Control	Review the delivery against the original savings plans in order to assess the reasonableness of these plans and the actions taken to implement them.	CMT	On-going	We will continue to monitor on a monthly basis at both DMT and CMT meetings and discuss progress with Cabinet Members. For 2014/15 and beyond we are moving away from Delivery Plans to broader Council-wide solutions.
	Clarify the accounting and governance arrangements for the PFI scheme with Torbay Council and Devon County Council.	Strategic Finance Manager	April 2014	Management agree the need for clarity whilst noting that the current arrangements have no impact on our revenue budget or Council Tax setting.

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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
- Useable Reserves: Gross Revenue Expenditure
- Long term borrowing to tax revenue
- Long term borrowing to long term assets
- Schools Reserves - Balances to Dedicated Schools Grant (DSG) allocations
- Sickness absence levels
- Out-turn against budget

We have used the Audit Commission's "nearest neighbours" benchmarking group which is made up of the following authorities:

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



Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment															
Liquidity	<p>The liquidity ratio analysis suggests that the working capital balance is well below the average considered to be acceptable. In 2011/12 we reported a worsening position and it is pleasing to note that the Council's position has stabilised. The Council has satisfactory arrangements in place for budgetary control and treasury management and has not encountered any cash flow problems in the year. However, there remains a need to keep this under close review and reporting to Members on key financial ratios may be helpful.</p> <p>The collection rates for Council Tax and Non Domestic Rates both increased slightly in the year to 96.5% and 96.7% respectively, continuing the increasing trend over the last 3 years. However, they fell short of the target rates in the Council's medium term financial strategy. Whilst this improvement is welcome, the Council's performance is below both the national averages for all councils and all unitary councils:</p> <table><tr><th></th><th>Plymouth City Council (Actual)</th><th>Plymouth City Council (Target)</th><th>All Councils</th><th>All Unitaries</th></tr><tr><td>Council Tax</td><td>96.5%</td><td>97%</td><td>97.4%</td><td>97.5%</td></tr><tr><td>Non Domestic Rates</td><td>96.7%</td><td>98%</td><td>97.7%</td><td>97.4%</td></tr></table>		Plymouth City Council (Actual)	Plymouth City Council (Target)	All Councils	All Unitaries	Council Tax	96.5%	97%	97.4%	97.5%	Non Domestic Rates	96.7%	98%	97.7%	97.4%	<div><div></div><div>Amber</div></div>
	Plymouth City Council (Actual)	Plymouth City Council (Target)	All Councils	All Unitaries													
Council Tax	96.5%	97%	97.4%	97.5%													
Non Domestic Rates	96.7%	98%	97.7%	97.4%													
Borrowing	<p>The Council is considered to be reasonably well placed as far as borrowing is concerned. Overall borrowing increased in 2012/13 by £19.8m, almost all of which was short term borrowing. However, as borrowing costs are fixed and the Council's budget is falling, an increasing proportion of its expenditure will be spent on servicing debt. This reduces the amount of flexibility that is available to the Council when it is looking to identify savings.</p> <p>The Council's Annual Report on treasury management activities for 2012/13, presented to the Audit Committee in June 2013, stated that none of the Council's prudential borrowing indicators were breached in the year.</p>	<div><div></div><div>Green</div></div>															



Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Workforce	<p>Plymouth's sickness absence levels have fluctuated over the past four years, although the overall trend is a downwards one. However, the figure for the Council is higher than the average for other Local Government organisations and is above the Council's own target. The Council therefore needs to focus its efforts on identifying the causes of the comparatively high levels of sickness absence and identify what actions it can take to address these, thereby reducing the current levels of sickness absence even further.</p> <p>Further information on sickness absence is included with the appendix to this report.</p>	 Amber
Performance Against Budgets: revenue & capital	<p>The Council achieved the planned outturn against budget for 2009/10, 2010/11 and 2011/12 to within its own accepted tolerance of 1% of the net expenditure, although the budgets in both 2010/11 and 2011/12 were overspent.</p> <p>Looking at 2012/13, the financial statements show an overspend of £504k. This is approximately 0.25% of the net expenditure and thus also meets the above accepted tolerance. However, the modest overall overspend does mask some variances within the Council. The £504k overspend is made up of underspends in the executive office (£138k), corporate items (£2,931k) and corporate services (£294k) with overspends in the 'people' directorate of £3,182k and the 'places' directorate of £685k. The main overspend was Joint Commissioning and Adult Social Care, with a final outturn position of a £4.6m overspend. We would acknowledge that the Council identified the overspend in individual directorates early in the year and took effective action to manage this across the Council as a whole.</p> <p>The Council's arrangements for budgetary control are adequate but there needs to be continued robust scrutiny of the original budget and prompt remedial action where variances emerge. Savings plans will also need to be robust in their design and closely monitored. This is particularly the case for "invest to save" schemes, where up-front costs are incurred in the expectation of future savings.</p> <p>The Council underspent against its capital budget by around 11%, spending £46.5m compared to the budget of £53m.</p>	 Amber

Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Reserve Balances	<p>Between 2009 and 2013 Plymouth City Council reduced the value of its General Fund balance from £11.7m to £10.8m, largely as a result of budget overspends. Almost 50% of the overall fall occurred in 2012/13, when the Council exceeded its budget by £504k. However, this was after delivering a significant savings plan for the year.</p> <p>The Council's General Fund balance is still within its target of 5% of net expenditure although, as the budget falls year-on-year, the target balance also falls. This means that it is possible for the General Fund balance to be gradually eroded, whilst keeping it within the Council's 5% target.</p> <p>As noted above, the Council's tolerance regarding any overspend is 1% of net expenditure. This tolerance equates to over £2m per year at the current level of spending and the General Fund reserves would only be sufficient to cover this level of overspend for 4 years. We therefore consider that the Council needs to continue to closely monitors its Reserves position to ensure that the current approach remains appropriate.</p>	 Green
Schools Balances	<p>The Council's expenditure on schools is primarily funded by the Department of Education via the Dedicated Schools Grant (DSG). The ratio of the schools balances held by the Council compared to the DSG had decreased over recent years.</p> <p>This was in line with the broad trend of the benchmark group although Plymouth's ratio had fallen more quickly than others. Its ratio of just under 5% for 2011/12 was the fourth lowest in the benchmark group. The ratio increased in 2012/13 by around 0.7% as a result of an increase in the schools balances and a decrease in the DSG received by the Council.</p>	 Green

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Appendix - Key indicators of financial performance

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 (MTFS)

Area of focus	Summary observations	Assessment
Focus of the MTFS	<p>The Council's current medium term financial strategy (MTFS) was approved by the Cabinet in June 2012. This was reviewed as part of our audit for the year ended 31 March 2012 and was covered in our financial resilience report dated November 2012.</p> <p>The current medium term financial strategy uses 2012/13 as the base year and projects ahead three years after this, to 2015/16.</p> <p>Annual budgets, at Directorate 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. The Council's expectation is that delivery plans encourage changes in operational practice and that the changes are embedded in the organisation.</p> <p>The MTFS is aligned to the Council's Corporate Plan, although the MTFS states that the Council could improve its approach to aligning revenue and capital spend to areas of highest and most strategic importance for its local communities and the people of Plymouth.</p> <p>The Council's capital programme is linked to the delivery of the savings and budget plans with clear profiles of how capital expenditure will be funded. The Council acknowledges that there is scope for the capital programme to be more strategic and less reactive.</p> <p>The Council is currently updating its medium term financial strategy using 2013/14 as the base year. It plans to produce a three year indicative financial framework to support the Council's revised Corporate Plan (i.e. to 2016/17). This will be supplemented with figures for the following two years, meaning that the medium term financial strategy, once produced, will be over a five year horizon.</p>	 Green


Strategic Financial Planning

Medium Term Financial Strategy (MTFS)

Area of focus	Summary observations	Assessment
Adequacy of planning assumptions	<p>We reviewed the June 2012 medium term financial strategy as part of 2011/12 audit and noted:</p> <ul style="list-style-type: none">• The Council had undertaken sensitivity analysis looking at factors that may impact spending such as pay, superannuation, inflation and Social Care Commissioning.• The plan assumed a Council Tax freeze in 2011/12 and 2012/13 which enabled the Council to claim the Council Tax Freeze Grant. The forecasted funding shortfall rose from £6.4m in 2012/13 to £9.1m in 2014/15 The Council had identified that, in total, by 2015 £30m of savings will be required to fund the budget gap. There was national uncertainty regarding Central Government support and Plymouth has worked with the information that they had, focusing upon the need to identify further savings across services where corporate priorities allow. <p>As noted above, the Council's medium term financial strategy is in the process of being updated, using the 2013/14 as the base year. This means that the medium term financial strategy, once produced, will be over a five year horizon.</p>	 Green



Strategic Financial Planning

Medium Term Financial Strategy (MTFS)

Area of focus	Summary observations	Assessment
Scope of the MTFP and links to annual planning	<p>As noted above, the Council's medium term financial strategy is in the process of being updated. We reviewed the June 2012 medium term financial strategy as part of 2011/12 audit and noted:</p> <ul style="list-style-type: none">• Detailed savings plans had been identified for 2012/13 and 2013/14. These concentrated on the need for strategic partnerships and reduced back office costs whilst supporting frontline priority services. This remains the ambition of the Council.• Revenue delivery plans had been devised with the ultimate responsibility lying with departmental Directors. This is still the case, with an overview being provided by the Corporate Management Team (CMT). Reports continue to go to Cabinet highlighting detailed performance against departmental budgets and savings plans.	 Green

Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
Review processes	<p>The Council's current medium term financial strategy (MTFS) was approved by the Cabinet in June 2012.</p> <p>The expectation is that the MTFS will be revised and updated on an annual basis before being approved by the Cabinet.</p> <p>The Council is currently updating its strategy using 2013/14 as the base year. It plans to produce a three year indicative financial framework to support the Council's revised Corporate Plan. This will be supplemented with figures for the following two years, meaning the Council is planning over a five year horizon.</p>	 Amber
Responsiveness of the Plan	<p>As noted above, the MTFS is in the process of being updated, with the expectation that the revised strategy will span a five year period. Some Councils plan over a longer horizon, although this is at a very high level and reflects anticipated demographic changes and key strategic objectives.</p>	 Green

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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>The Strategic Directors fully understand the financial environment in which they operate. All the Directorates have weekly management meetings and regularly discuss key financial and performance issues as required. Performance against the budget is reviewed monthly with all budget holders receiving monthly budget reports.</p> <p>The Audit Committee receive updates on the risk management strategy and the risk registers on a regular basis.</p> <p>Members are involved in the budget setting process and there is a good budget scrutiny process in place which involves Members, representatives from key partnerships and other stakeholders.</p> <p>Training is provided to members and finance staff on an on-going basis.</p> <p>Joint finance and performance reports are presented to Cabinet on a quarterly basis. There is scope to improve these reports to:</p> <ul style="list-style-type: none">• clearly identify the links between financial outturn and the achievement of the Council's objectives and priorities; and• ensure the Council's actual performance is being measured in a timely way. Some reports had missing information or ambiguous / unclear performance indicators. Examples include:<ul style="list-style-type: none">• <i>"To decrease the rate of teenage pregnancy in the most deprived fifth (eight) of neighbourhoods by 9.7% by 2020" - the reported performance is 80.3%.</i>• <i>"Reduction in City-wide carbon emission. (Per Capita Co2 emission Local Authority area (kilo tonnes) – the reported performance is 1,315 (2010) although there is no target or benchmarking information.</i>• Others simply say awaiting data and there are examples where the report says 'N/A' for the first three years and 'awaiting data' for the fourth year. <p>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.</p> <p>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 Red-Amber-Green rating to give an indication of progress.</p>	 Green



Financial Governance

Understanding and engagement

Area of focus	Summary observations	Assessment
Executive and Member Engagement	<p>The 2013/14 budget was subject to scrutiny from the Overview and Scrutiny Management Board. This involved the chamber of commerce, other stakeholders and the Council's key partners:</p> <ul style="list-style-type: none">• Devon and Cornwall Police;• NEW Devon NHS Clinical Commissioning Group Western Locality;• Plymouth Community Healthcare CIC;• Plymouth Hospitals NHS Trust; and• Devon and Somerset Fire and Rescue Service Authority. <p>The Council also launched a postal consultation on the 2013/14 budget, sending out over 8,000 questionnaires to members of the public.</p> <p>Each directorate's budget plans have been subject to a cross-directorate challenge at both CMT and SMT level. Also, for the first time, portfolio holders and directors were challenged by the portfolio holder for finance together with the Director for Corporate Services.</p> <p>As noted previously, there is good engagement of Senior Officers in the budget setting process.</p>	 Green
Overview for controls over key cost categories	<p>There is clear financial reporting across the Council.</p> <p>The Council was aware of the high cost areas such as Adult Social Care in a timely manner and has assigned performance indicators and targets for these areas. Despite these measures, there were still some significant overspends in some areas of the Council in 2012/13. Were these not able to be largely offset by savings elsewhere, the outturn for 2012/13 would have been fundamentally different.</p> <p>Pressures in areas such as Adult Social Care are set to continue, as the population ages and care packages become more expensive. Robust challenges of the plans and close scrutiny of the financial performance, with prompt remedial action if required, will be essential to safeguard the Council's financial position.</p>	 Green

Financial Governance

Understanding and engagement

Area of focus	Summary observations	Assessment
Budget reporting: revenue and capital	<p>The Council's Internal Auditors reported on the main accounting system (including budgetary control) in 2012/13 and they concluded that the level of assurance was of a 'high standard' in respect of variations (i.e. overspends and underspends) not being identified and reported. This reflected our own assessment of the Council's budgetary control arrangements that we reported in our 2011/12 financial resilience report.</p> <p>A Performance and Finance Report is provided to the Cabinet on a quarterly basis. This covers both the Council's revenue and capital budgets and shows the Council's performance against a number of performance indicators. Earlier in this report we noted that there was scope to improve some aspects of the performance reporting.</p> <p>The report to Cabinet also covers the delivery of the Council's savings plans and performance against these is RAG rated (i.e. Red-Amber-Green) to ensure Members are aware of the progress that is being made.</p>	 Green
Adequacy of other Committee/Cabinet Reporting	<p>As noted above, the reports to Cabinet cover the Council's revenue and capital budgets and an assessment of the progress being made against its savings plans. These reports also cover the collection rates for the key income streams of Council Tax and non domestic rates. However, these finance reports do not cover areas such as the Council's balance sheet position (including the position regarding debtors and creditors), the Council's cash flow position, key financial ratios (such as liquidity) or other important measures such as staff turnover rates. Members should be consulted on the type and volume of information they would find helpful.</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>The Council has good processes in place for budget setting, including appropriate involvement from Members and Senior Officers, effective scrutiny arrangements and good engagement with external stakeholders, including key partners and members of the public.</p> <p>On a day-to-day basis, all budgets have been allocated to named budget holders who have access to financial support from their designated finance officer.</p> <p>Monitoring of budgets on a monthly basis is carried out at Departmental and Directorate level, with the Cabinet being provided with information on a quarterly basis.</p>	 Green
Performance against Savings Plans	<p>The budget setting process included the production of financial delivery plans for each of the Council's directorates, identifying where savings would be made. However, opportunities for achieving savings are constantly assessed and are taken wherever possible.</p> <p>This process involved Senior Officers from the Council who were able to identify where savings could be made that would either not have an impact or would improve performance within their own areas. However, given the scale of the likely savings that will need to be made by the Council over the lifetime of its emerging medium term financial strategy, it is almost inevitable that there will be an adverse impact on service delivery in some areas.</p> <p>Savings plans are regularly monitored and reported to Members, although there was no reporting of the outturn position for the year. The Council has a track record of delivery its budget to within the tolerance of 1% of expenditure, although there were some large overspends in 2012/13 which were compensated for by savings elsewhere which were not originally envisaged. Looking ahead, the Council needs to ensure that its savings plans are robust and regularly monitored, with outturn reports being scrutinised to assess the accuracy of the original plans.</p>	 Amber



Financial Control

Internal and external assurances

Area of focus	Summary observations	Assessment
Key Financial Accounting Systems	The key financial systems in place at Plymouth City Council are generally considered to be sound.	 Green
	Internal Audit's Annual Report was presented to the Audit Committee in June 2013 and this did not identify any major concerns, although some areas, of which Housing Benefits was the only significant one, were assessed as 'Improvement Required'.	
	Our interim audit work did not identify any significant control weaknesses within the Council's key financial systems.	
Finance Department Resourcing	Historically, staff turnover within the Council's finance function has been relatively low. We have not had any concerns regarding the competency of the finance team or its knowledge of the Council's financial systems and processes.	 Green
	The section 151 officer has recently left the authority with interim arrangements being put in place. In addition, the officer responsible for the production of the Council's financial statements is due to leave the Council in September 2013 and will be replaced by a person on a 12 month contract. This contract will expire before our 2013/14 audit has been completed. The Council will need to ensure that there is appropriate supervision during the production of its financial statements and that staff with sufficient knowledge are available to manage the audit process within the Council on a day-to-day basis.	


Financial Control

Internal and external assurances

Area of focus	Summary observations	Assessment
Internal audit arrangements	<p>During our interim audit we concluded that the Internal Audit provided an independent and satisfactory service to the Council. We are therefore able to take assurance from Internal Audit's work in contributing to an effective internal control environment at the Council.</p> <p>We had previously made recommendations regarding Internal Audit's plans and its communication with the Audit Committee. We reviewed the Internal Audit Plan for 2013/14 to assess whether these recommendations have been addressed. We reported in our interim report in June that whilst the audit plan did identify the quarters in which the work was planned to be undertaken, the audits were not clearly aligned to the risks that had been identified. Consequently, we reported that whilst some of the improvements have been implemented, improved transparency over the risk assessment supporting the programme of work has yet to be developed.</p> <p>We are currently working with Internal Audit to establish a more effective method of reporting to the Audit Committee.</p>	 Green
External audit arrangements	<p>We have continued to maintain a constructive working relationship with Plymouth City Council and received co-operation and support during the conduct of our audit.</p> <p>However, unlike previous years, officers have been slow to respond to some significant accounting issues we have identified through our audit, including the accounting for future landfill costs and the energy from waste PFI arrangement it has entered into with Devon County Council and Torbay Council. This latter issue relates to a scheme that becomes operational in the next financial year (i.e. 2014/15) but the Council has yet to finalise the arrangements, with its partners, over the formal status of the entity (i.e. whether it is a Joint Committee or other arrangement); the governance arrangements for the entity; and the accounting treatment of the asset that is currently being constructed.</p>	 Amber

Financial Control

Internal and external assurances

Area of focus	Summary observations	Assessment
Assurance framework/risk management	<p>As part of the 2012/13 Internal Audit work, an evaluation of operational risk management arrangements operating within Council directorates was undertaken.</p> <p>Internal Audit reported their findings in October 2012 and they concluded that the overall risk management arrangements operating within Plymouth City Council Directorates were “Embedded and Integrated”.</p> <p>In December 2012 the Council updated its risk management strategy – the <i>'risk and opportunity management strategy 2012-14'</i>.</p> <p>Risk management forms a part of the Council's competency framework and this will be used to assess the contribution and performance of relevant employees.</p> <p>The strategy sets out the requirement for the Council to operate two different types of risk and opportunity register – strategic and operational. The strategic register records medium to long term high level risks and the operational register records those risks affecting the day-to-day departmental operations. These operational risks should link to the service area's business plan – which in turn demonstrate the service's focus on the Council's priorities.</p> <p>The role of Cabinet members is to approve the strategy itself and to receive both monitoring reports on the strategic risk register and an annual risk management report.</p> <p>The Audit Committee will continue to receive reports on the compliance with the Council's risk management arrangements. The role of Officers – from the senior 'Champion' downwards – are clearly articulated in the Council's the risk and opportunity management strategy.</p>	 Green

1 Executive Summary

2 Key Indicators

3 Strategic Financial Planning

4 Financial Governance

5 Financial Control

Appendix - Key indicators of financial performance

Key Indicators of Financial Performance

Working Capital - Benchmarked

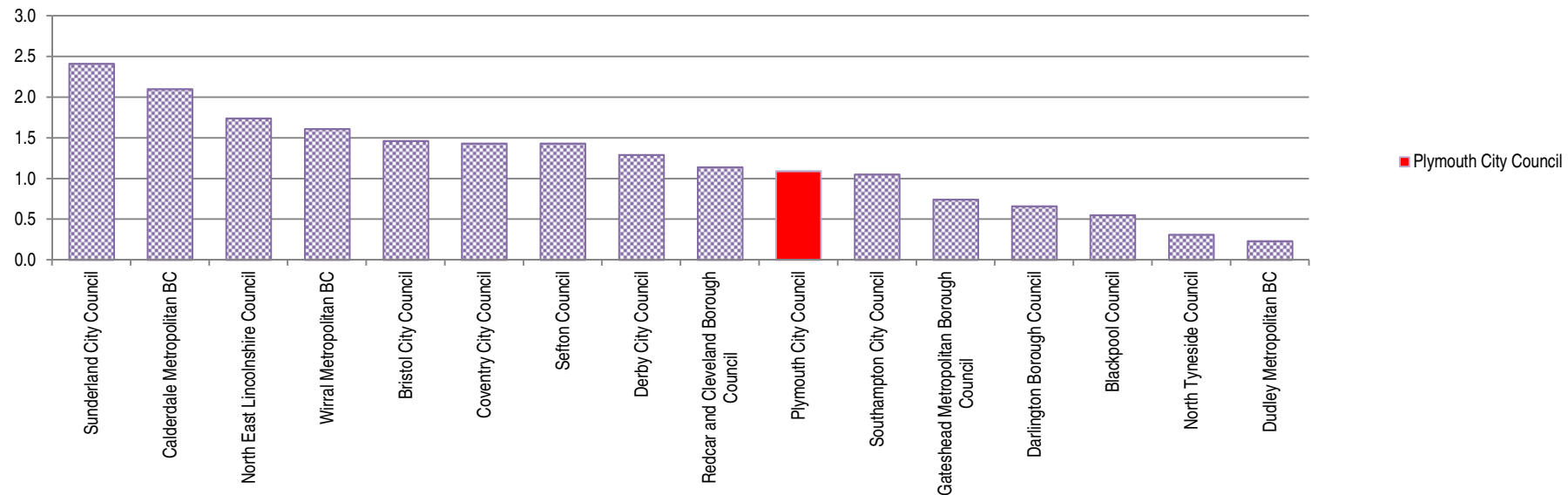
Definition

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.

Findings

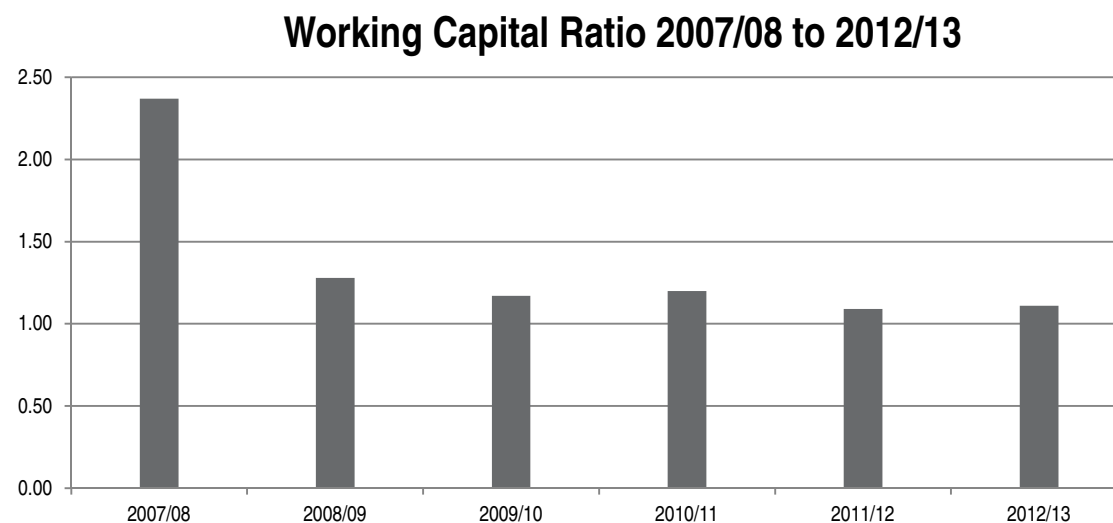
The working capital ratio has remained fairly static over the last five years, as illustrated in the chart on the following page. Although the ratio for Plymouth is a long way off the 'ideal' of 2:1, it has maintained a positive working capital ratio - unlike some other authorities in its benchmark group. Close monitoring has meant that the City Council has not encountered any cash flow problems. Working capital will come under increasing pressure in the future and will need to continue to be carefully monitored.

Working Capital ratio - 2011-12



Key Indicators of Financial Performance

Working Capital Trend For Plymouth City Council



As can be seen, the Council's working capital ratio has remained fairly static over the last five years.

The Council has maintained a positive ratio (i.e. above one) for the entire period. The ratio at the end of 2012/13 was 1.11:1, although it is still a long way off the "ideal" ratio of 2:1.

Good budgetary control and treasury management arrangements have ensured that the Council has not encountered any cash flow problems, leaving it unable to pay its staff and creditors on time or meet other liabilities as they become due.

Continuing financial challenges across the entire public sector are likely to keep working capital under pressure and so the close monitoring will need to continue. Members may find it helpful to have some key financial ratios included in the financial reports provided to them.

Key Indicators of Financial Performance

Useable Reserves - Benchmarked

Definition

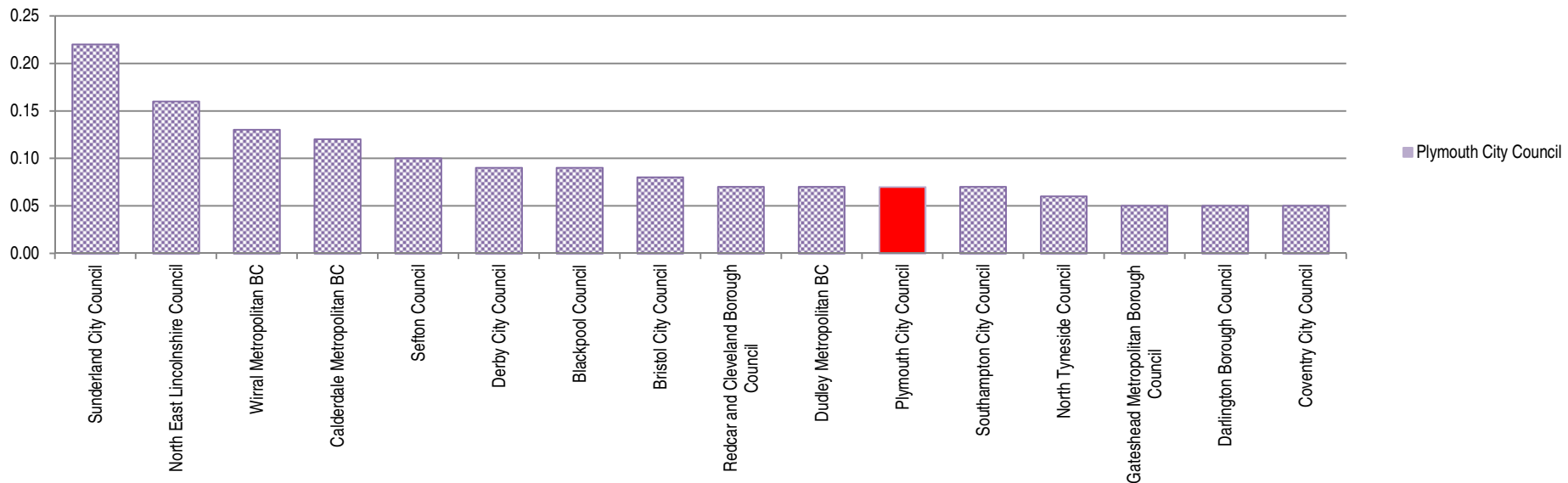
This shows useable capital and revenue reserves as a share of expenditure. A ratio of one means the total reserves matches the level of expenditure, with a ratio of 0.1 meaning that the reserves were 10% of the Council's annual expenditure.

Findings

Between 2009 and 2013 Plymouth City Council has reduced the value of its General Fund balance from £11.7m to £10.8m, largely as a result of budget overspends. Almost 50% of the overall fall occurred in 2012/13.

The Council's General Fund balance is still within its target of 5% of net expenditure, although as the budget falls year-on-year, the target balance also falls. This means that it is possible for the General Fund balance to be gradually eroded, whilst keeping within the 5% target.

Usable Reserves to Gross Revenue Expenditure ratio 2011-12



Key Indicators of Financial Performance

Long Term Borrowing to Tax Revenue - Benchmarked

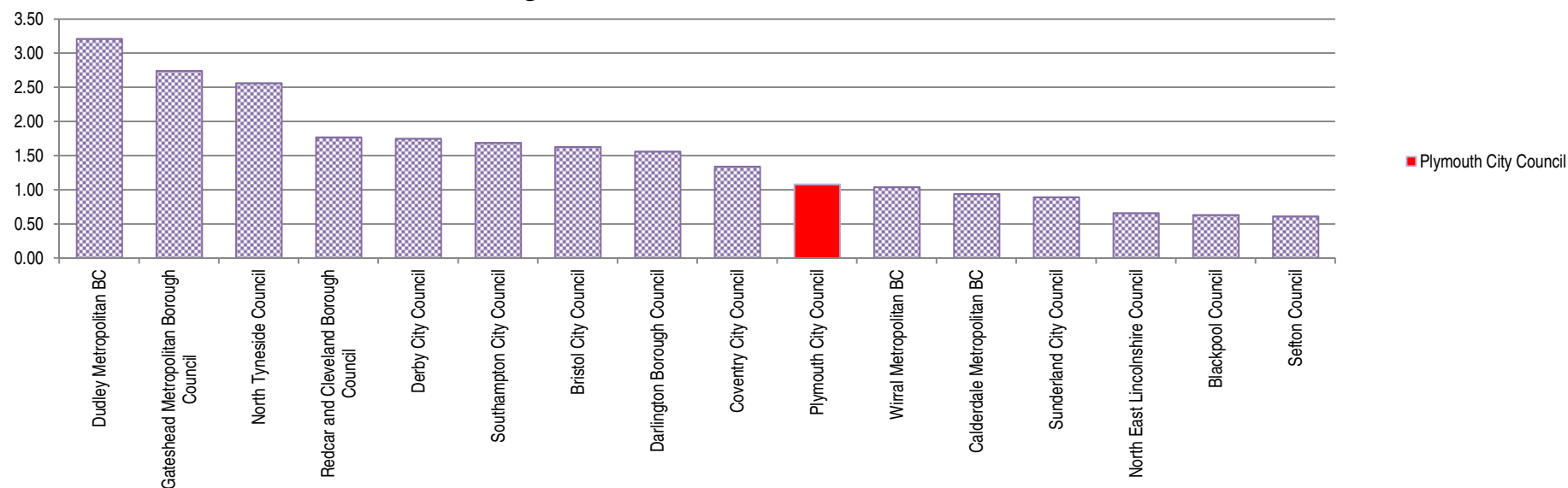
Definition

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's ratio of 1.08 in 2011/12 indicates that it had long term borrowing which was almost in line with its tax revenue. Although this was slightly above the "ideal ratio" of 1, Plymouth is relatively well placed compared with other the authorities in its benchmarking group. However, any plans for an increase in borrowing could increase the difference from the "ideal ratio" of 1.

Long Term Debt to Tax Revenue ratio 2011-12



Key Indicators of Financial Performance

Long-term borrowing to Long-term assets - Benchmarked

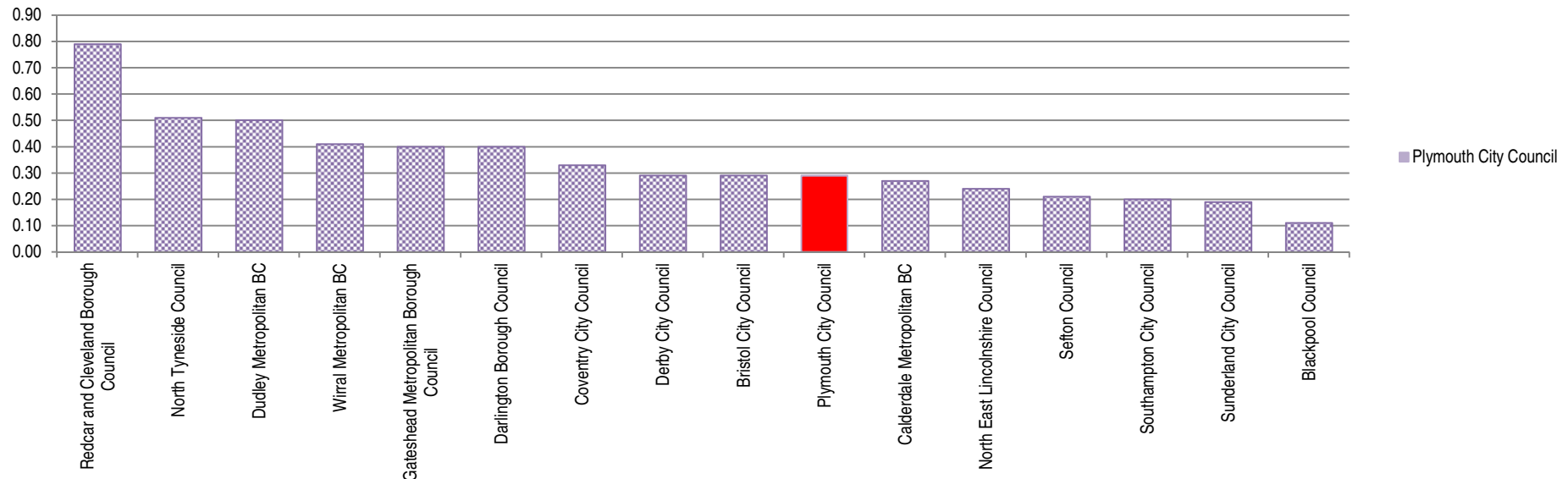
Definition

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's most recent bench-marked ratio (2011/12) of 0.29 shows that the Council's long term borrowing represents approximately one third of its long term assets - i.e. long term borrowing does not exceed its long term assets. In comparison to other authorities in this benchmarked group, Plymouth has a lower than average long term borrowing to long term assets ratio. The ratio for Plymouth City Council for 2012/13 is almost unchanged at 0.31.

Long Term Debt to Long Term Assets ratio 2011-12



Key Indicators of Financial Performance

Schools balances to Dedicated Schools Grant (DSG) allocation - Benchmarked

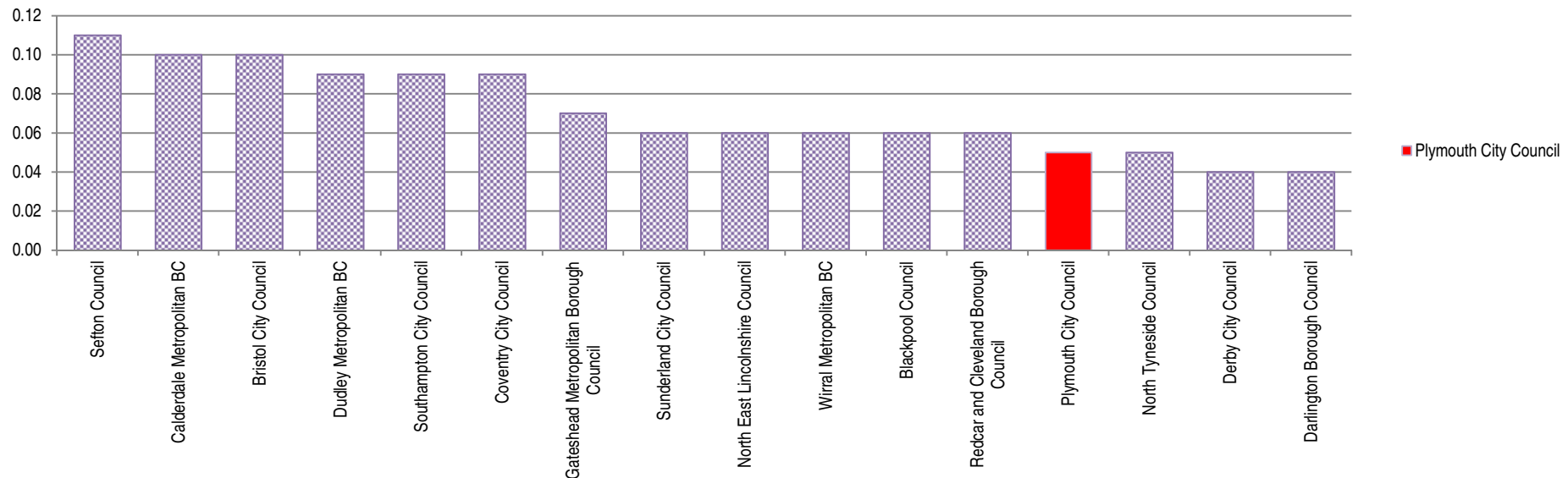
Definition

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 over recent years and this is in line with the broad trend of the benchmark group. However, Plymouth's ratio has fallen more quickly than others and its ratio of just under 5% for 2011/12 was the fourth lowest in the benchmark group. The ratio increased in 2012/13 by around 0.7% as a result of an increase in the schools balances and a decrease in the DSG received by the Council.

Schools Balances to Dedicated Schools Grant ratio 2011-12



Key Indicators of Financial Performance

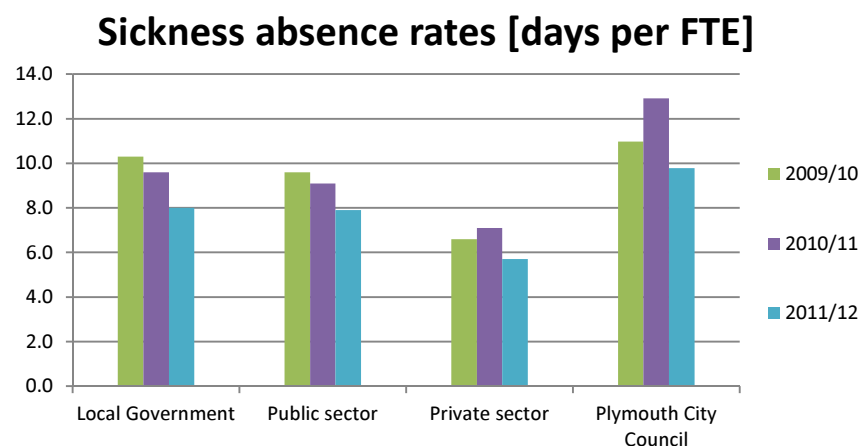
Sickness Absence Levels

Background

The average sickness absence level for the public sector in 2011/12 was 7.9 days per FTE, whilst the private sector average was 5.7. 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 approach 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 given the context of significant pressures on staff to deliver "more for less".



Findings

Plymouth's sickness absence levels have fluctuated over the past four years, although the overall trend is a downwards one.

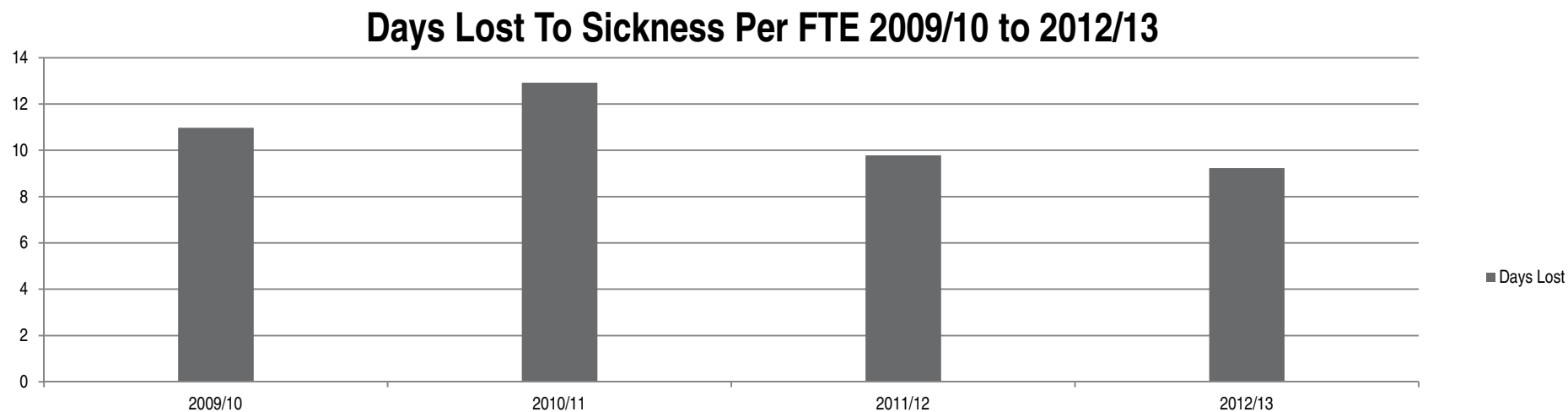
The adjacent chart shows the Council's performance against other Local Government bodies, the wider public sector and the private sector for the period 2009/10 to 2011/12. As can be seen, the sickness levels at Plymouth are higher than at these other types of body.

The chart on the following page also includes data for 2012/13. Although this year's performance reflects a slight improvement, it is still higher than other comparable organisations and the Council's own target of 8.49 days per FTE.

The Council needs to focus its efforts on reducing the current levels of sickness absence even further.

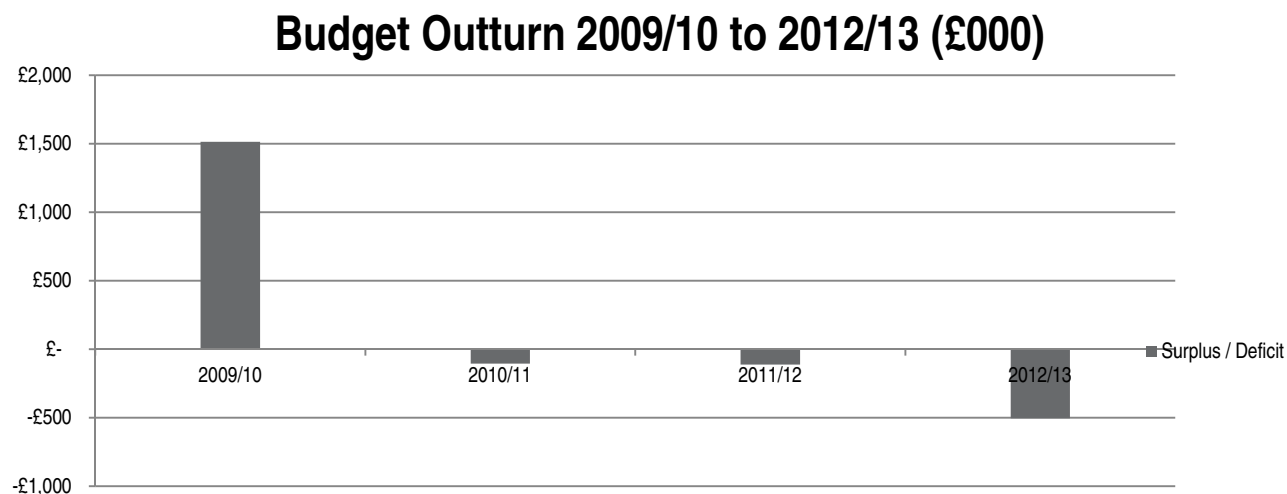
Key Indicators of Financial Performance

Sickness Absence Levels



Key Indicators of Financial Performance

Performance Against Budget: Track Record



Plymouth City Council has a sound system of budgetary control.

However, in each of the past three financial years the Council's General Fund expenditure has exceeded its budget – albeit within the Council's tolerance of 1 % of net expenditure. As noted earlier, these overspends have reduced the Council's General Fund balance.

In future years, recurrent savings will be increasingly difficult to both identify and achieve and the Council must strive to keep its expenditure in line with its income.



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