

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

10 April 2012

Report of the Director of Finance

Part 1- Public

Matters for Information

1 AUDIT COMMISSION PUBLICATION – TOUGH TIMES – COUNCILS’ RESPONSES TO A CHALLENGING FINANCIAL CLIMATE

The Audit Commission in November 2011 published a paper entitled ‘Tough times – Councils’ responses to a challenging financial climate’. This report sets out for Members’ information the main findings from the study and subsequent recommendations.

1.1 Introduction

- 1.1.1 Councils face significant cuts in funding from central government, as well as reductions in other sources of income, e.g. fees and charges. The paper, ‘Tough times – Councils’ responses to a challenging financial climate’, provides a comprehensive picture of the impact of changes in funding for councils, and councils’ responses to those changes.
- 1.1.2 The paper, based on analysis of council budget data and a survey of all appointed auditors focuses on how councils dealt with these issues in preparing for 2011/12. The paper is lengthy (some 49 pages) so rather than reproduce in hard copy, the paper can be found at the following link:

<http://www.auditcommission.gov.uk/SiteCollectionDocuments/Downloads/201111toughtimes.pdf>
- 1.1.3 Despite the challenges, auditors felt most were coping well so far. They expected 90 per cent of councils to balance their 2011/12 budget. To do this councils have improved efficiency, cut services, increased fees and charges, and have used reserves.
- 1.1.4 The report should help senior officers and Members review and challenge their current plans to maintain financial resilience and to assess their readiness to meet future challenges.

1.2 Main Findings from the Study

1.2.1 The main findings (not exhaustive list) from the study that Members may find of interest are:

- 1) Government funding to councils has fallen in real terms by 11.8%. The Council saw its funding in cash terms cut by around 16% in 2011/12.
- 2) Local income is also falling – councils expect income from fees and charges to fall and the council tax freeze for 2011/12 represents a real-terms loss in council tax income.
- 3) Councils have three main ways to balance their budgets: increasing local income – council tax and fees and charges; using reserves; and or reducing spending.
- 4) Councils also face other changes and challenges in the medium term including: proposals for the retention of business rates and the localisation of council tax benefit, which raises uncertainties about future funding.
- 5) Councils hold significant reserves, most are earmarked for specific purposes.
- 6) There may be scope to use reserves more to support spending, but this should be as a short-term measure within a sound financial plan.
- 7) Auditors considered that most councils were well prepared to meet the financial challenge – Council leadership teams understand the financial situation and effective challenge has been provided by elected members during budget setting.
- 8) Future years will provide a continuing, and possibly tougher, test of councils' financial management skills.

1.3 Recommendations

1.3.1 Most councils prepared well for 2011/12, but the future will be challenging for all councils. Councils should:

- 1) Ensure they have up-to-date medium term financial plans for the remainder of the current spending review period and beyond.
- 2) Ensure that future savings plans are sustainable.
- 3) Subject their savings proposals to rigorous appraisal and evaluation to ensure they will deliver planned savings.
- 4) Challenge and review policies on the level of reserves.
- 5) Use the Audit Commission's Value for Money profiles.

- 6) Review their financial planning and management arrangements.
- 7) Assess their portfolio of services and activities.
- 8) Review their collection and use of information for decision-making.
- 9) Consider the guidance in the forthcoming joint report – ‘Work in Progress: Meeting Local Needs with Lower Workforce Costs’.

1.4 Annual Audit Letter and Medium Term Financial Strategy

- 1.4.1 The District Auditor in the recent Annual Audit Letter and following the 2011 audit concluded that the Council continues to have a strong and effective framework for financial planning and budgetary control.
- 1.4.2 The Council’s Medium Term Financial Strategy covers both revenue and capital budgets, and it is this Strategy that underpins the budget setting process for the forthcoming year and over the strategy period. The aim of the Medium Term Financial Strategy is to give us a realistic and sustainable plan that reflects the Council’s priorities and takes us into the future.
- 1.4.3 Given the scale of the financial challenge faced by the Council as part of the 2011/12 budget setting process we moved to a Medium Term Financial Strategy spanning a ten-year period; and set the following two fundamental objectives: to maintain a minimum general revenue reserve balance of £2.0m and to achieve a balanced budget by the end of the strategy period.
- 1.4.4 The financial difficulties the entire public sector is facing are unprecedented, but we believe our Medium Term Financial Strategy is resilient and the financial pressures likely to confront us can be addressed in a measured and controlled way. Clearly, the absolute size of the ‘funding gap’ will influence the timescales we afford ourselves to address the problem. A part 2 report was presented to Cabinet on 28 March setting out a number of potential savings initiatives.

1.5 Legal Implications

- 1.5.1 The Audit Commission is a public corporation set up in 1983 to protect the public purse. The Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. They also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidenced-based analysis and advice.

1.6 Financial and Value for Money Considerations

- 1.6.1 As set out in accompanying Audit Commission document, ‘Tough times – Councils’ responses to a challenging financial climate’.

1.7 Risk Assessment

- 1.7.1 As set out in accompanying Audit Commission document, 'Tough times – Councils' responses to a challenging financial climate'.

Background papers:

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Nil

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