

# Review of Tonbridge & Malling Borough Council's Arrangements for Securing Financial Resilience

Year ended 31 March 2013

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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.

The definition of foreseeable future for the purposes of this 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 and the Council's approach to;

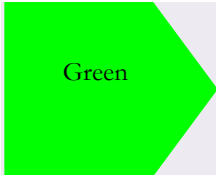
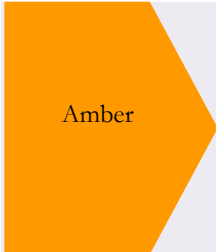
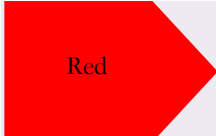
- strategic financial planning
- financial governance
- financial control.

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

### Overall Conclusion

Our overall conclusion is that for each of the areas reviewed the Council has arrangements in place which meet or exceed adequate standards.

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

 Green	<b>Arrangements meet or exceed adequate standards.</b> Adequate arrangements identified and key characteristics of good practice appear to be in place.
 Amber	<b>Potential risks and/or weaknesses.</b> 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	<b>High risk:</b> The Council's arrangements are generally inadequate or may have a high risk of not succeeding

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# Executive Summary

## National 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





The Council received a grant settlement of £4,269,889 for 2012/13, representing a reduction of 11.9% on the 2011/12 adjusted grant base. The Council's formula grant funding has been reduced by more than £1.5m or 28% over the two-year period 2011/12 to 2012/13.

From April 2013 the formula grant system has been replaced by the business rates retention system. If the Council's actual business rate income is less than the baseline set by the government then it has to meet a share of the shortfall. The Council's latest estimate is that income from business rates in 2013/14 will fall below the baseline, although this is still subject to considerable uncertainty.

The Council has now received details of its indicative funding assessment for 2015/16 following the government's spending review in June 2013. The Council faces a reduction of £664,000 or around 15% for 2015/16 compared to its indicative funding assessment for 2014/15.

# Executive Summary

## Overview of Arrangements

Risk area	Summary observations	High level risk assessment
<p><b>Key Indicators of Performance</b></p>	<p>We have reviewed key indicators of performance using published financial ratios from the Audit Commission and benchmarking against the Council's nearest neighbour group.</p> <p>There are no significant issues of concern. The Council's working capital ratio is high and it regularly underspends against revenue budget. The ratio of reserves to gross revenue expenditure fell in 2012/13 but this was a planned reduction in line with the Council's Medium Term Financial Strategy (MTFS). Sickness levels have increased slightly in 2012/13 but in recent years have been below the local government average.</p>	<p> Green</p>
<p><b>Strategic Financial Planning</b></p>	<p>The Council continues to have a strong medium term planning framework. The MTFS is reviewed annually and informs the annual budget-setting process. A funding gap has been identified over the lifetime of the strategy. The Council's approach to closing this gap remains appropriate, with savings to be achieved in tranches over time to allow for a considered approach to planning and implementation.</p>	<p> Green</p>
<p><b>Financial Governance</b></p>	<p>There is a strong corporate focus on financial management issues, with effective member engagement. Financial reporting is comprehensive and transparent and there is an awareness of the key risks facing the Council.</p>	<p> Green</p>
<p><b>Financial Control</b></p>	<p>There is an effective framework of financial control over the Council's main accounting systems. Processes for budget-setting are well-established and capable of ensuring a reliable, achievable budget. Planned budget savings were achieved in 2012/13. However, although the current planning framework is robust, a significant financial gap remains over the lifetime of the MTFS and funding pressures continue to increase. The Council faces a period of sustained financial pressure.</p>	<p> Green</p>

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# Key Indicators

## Introduction

This section of the report includes analysis of key indicators of financial performance, benchmarked where this data is available using published financial ratios from the Audit Commission. The most recent available data is for 2011/12. The indicators include:





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

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

Ashford Borough Council  
Basingstoke and Deane Borough Council  
Braintree District Council  
Cherwell District Council  
East Hampshire District Council  
East Hertfordshire District Council  
Horsham District Council  
Lichfield District Council  
Maidstone Borough Council  
Mid Sussex District Council  
South Oxfordshire District Council  
Stroud District Council  
Test Valley Borough Council  
Tunbridge Wells Borough Council  
Vale of White Horse District Council

# Key Indicators


## Overview of performance

Area of focus	Summary observations	Assessment
<b>Liquidity</b>	<p>The working capital ratio indicates if an authority has enough current assets to cover its immediate liabilities. A ratio of less than one indicates potential liquidity problems.</p> <p>The Council's working capital ratio was 4.00 for 11/12. The Council was ranked 8th out of 16 in its nearest neighbours grouping. The working capital ratio has increased to 5.64 for 12/13.</p> <p>In 2011/12 the Council's collection rates for Council tax (98.6%) and NNDR (99.3%) were significantly higher than the all-England and all district council averages. The collection rates for 12/13 remain high (Council tax 98.5% and NNDR 99.7%).</p> <p>The Council carefully monitors the gearing between locally-collected taxes and government grants. The impact on the Council tax base over the medium term has been considered in deciding on Council tax levels in 2012/13 and 2013/14.</p>	 <b>Green</b>
<b>Borrowing</b>	<p>The Council has remained debt-free in 2012/13.</p>	 <b>Green</b>
<b>Workforce</b>	<p>The number of WTEs at the Council has been reducing year on year since 2009/10. Staff turnover in recent years has been low and is not formally monitored.</p> <p>The Council monitors sickness rates on a monthly basis. Aggregate rates for the last three years are as follows;            2010/11: 8.20 (local government average 9.6)            2011/12: 7.46 (local government average 8.0)            2012/13: 7.77</p>	 <b>Green</b>
<b>Performance Against Budgets: revenue &amp; capital</b>	<p>In recent years the Council has regularly underspent against revenue original budgets. For 2012/13 the underspend was £201,000. In 2012/13 the Council also underspent against its original capital budget by £530,000 due to lower than anticipated spend on capital renewals and re-profiling of planned schemes.</p>	 <b>Green</b>

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# Key Indicators

## Overview of performance

Area of focus	Summary observations	Assessment
<b>Reserve Balances</b>	<p>In 2011/12 the Council's ratio of usable reserves to gross revenue expenditure was 0.31. The Council was ranked 6th out of 16 in its nearest neighbours grouping.</p> <p>The ratio has reduced to 0.26 in 12/13. This reflects a planned reduction in reserves under the MTFS and planned use of the Revenue Reserve for Capital Schemes to support capital expenditure.</p> <p>Whilst it is the Section 151 officer's responsibility to advise on the level of reserves and for members to endorse this, we consider the level of reserves at Tonbridge and Malling is not excessively high or low when compared with other authorities.</p>	 <b>Green</b>

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# Strategic Financial Planning






## **Key characteristics of good strategic financial planning**

In conducting our review of strategic financial planning we have assessed the Council's performance against the following indicators:

- Focus on achievement of corporate priorities is evident through the financial planning process. The MTFP focuses resources on priorities.
- The MTFP includes outcome measures, scenario planning, benchmarking, resource planning and details on partnership working. Targets have been set for future periods in respect of reserve balances, prudential indicators etc.
- Annual financial plans follow the longer term financial strategy.
- There is regular review of the MTFP and the assumptions made within it. The Council responds to changing circumstances and manages its financial risks.
- The Council has performed stress testing on its model using a range of economic assumptions including CSR.
- The MTFP is linked to and is consistent with other key strategies, including workforce.
- KPIs can be derived for future periods from the information included within the MTFP.

# Strategic Financial Planning

## Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
<b>Focus of the MTFP</b>	The Council has had a 10 year Medium Term Financial Strategy (MTFS) since 2010/11. The MTFS covers all significant areas of income and expenditure. There is a clear framework of objectives underlying the strategy which have remained unchanged and include a link to the level of General Revenue Reserves.	 <b>Green</b>
<b>Adequacy of planning assumptions</b>	The framework of planning assumptions underlying the MTFS is comprehensive and covers all key areas including income-generating activities, pay and price inflation, investment income and revenue contributions to capital expenditure. The plan also incorporates assumptions on taxation and funding including movements on the council tax base, NNDR baseline and income from New Homes Bonus. Historically these assumptions are reviewed at least annually. There has been a further immediate review in July 2013 to take account of the government's June 2013 spending review and recent consultation papers.	 <b>Green</b>
<b>Scope of the MTFP and links to annual planning</b>	The annual budget is set within a clear medium term framework. The MTFS is updated annually and the outcomes reported in October to inform the budget-setting process, and again in February to support formal approval of the budget. The recent July 2013 review has fed through to revised in-year savings targets for 2013/14. The intention to deliver savings in tranches over the lifetime of the MTFS should ensure that plans are properly aligned with other Council strategies and priorities.	 <b>Green</b>
<b>Review processes</b>	The MTFS is reviewed at least annually. There is evidence that this is a meaningful review with active updating of assumptions.	 <b>Green</b>
<b>Responsiveness of the Plan</b>	The current funding gap at the end of the 10 year MTFS is £2.8m. To address this gap the Council proposes to deliver savings in four "tranches" by 2019/20. This will provide flexibility to respond to future changes in assumptions, funding levels or the economic environment. It will also allow for a considered approach to the identification of savings, the impact on Council priorities and project planning and implementation.	 <b>Green</b>

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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
<b>Understanding the Financial Environment</b>	The Council has a clear corporate focus on financial management issues. There are regular reporting cycles on financial planning and in-year performance to both Cabinet and the Finance, Innovation and Property Advisory Board (FIPAB). The reports are transparent with clear commentary on risks and performance. The current planning framework indicates that members and senior officers are financially aware and understand the main risks facing the Council over the medium term. Savings achievement or "reducing the funding gap" is a key indicator publicly reported under the Corporate Performance Plan.	 Green
<b>Executive and Member Engagement</b>	There is a strong framework of member engagement to support financial planning and financial monitoring. There is evidence of challenge but also of a cohesive approach which provides a sound basis for longer term planning. There is a willingness to take difficult decisions to maintain the Council's financial position.	 Green
<b>Overview for controls over key cost categories</b>	The Council monitors and reports the revenue budget on a service basis. Salaries costs are reported separately with further analysis on shared working arrangements and temporary staff costs. There is an adequate framework for monitoring salary and other revenue costs.	 Green
<b>Budget reporting: revenue and capital</b>	Monthly budgetary control procedures at service level are well-established. A formal Corporate Monitoring Statement goes quarterly to management team, FIPAB and Cabinet. This provides revenue and capital forecasts and variance analysis on salaries and all major income streams at an appropriate level.	 Green
<b>Adequacy of other Committee/ Cabinet Reporting</b>	Other detailed financial information is provided to Cabinet/Committees as appropriate. A detailed Treasury Management update goes to each Audit Committee. Other indicators are reported under the Corporate Performance Plan e.g. collection rates for council tax and business rates. The overall level and frequency of information reported appears adequate.	 Green

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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
<b>Budget setting and monitoring - revenue and capital</b>	<p>The processes in place for budget preparation are well-established and capable of ensuring a reliable achievable budget. Revised estimates are used to inform budget-setting for the following year. There is active management of cash taking account of counterparty and interest rate risks.</p>	 Green
<b>Performance against Savings Plans</b>	<p>The Council has a history of achieving savings targets and has delivered planned savings of £635,000 for 2012/13.</p> <p>At February 2013 the identified funding gap over the lifetime of the MTFS was £2.8m, a slight increase on the previous year even after taking account of the £635,000 savings achieved in 2012/13. The Council proposes to deliver these savings in four "tranches" by 2019/20.</p> <p>Following a further review of assumptions in July 2013 the funding gap has increased to £3m. Previously the first tranche had required savings of £900,000 to be delivered by 1 April 2014. Officers now propose to increase the 2013/14 savings target to £1,100,000 to avoid the revised funding gap increasing further over time. This continues to demonstrate a structured approach to addressing financial pressures within a clear medium-term context.</p> <p>To date savings of approximately £700,000 have been identified and confirmed for 2012/13. Officers propose to deliver the full revised target of £1,100,000 by 31 March 2014. Further work is required to identify these savings, although a number of initiatives are currently being considered by the Overview and Scrutiny Committee.</p> <p>Savings in later years have still to be identified. When compared to modelling in previous years the latest MTFS shows a reduction in the general revenue reserve balance at the end of the 10 year strategy period, although the agreed minimum balance of £2m continues to be achieved. This emphasises that there is little scope to respond to future financial pressures by additional contributions from general reserves. Uncertainties remain over future funding levels and the economic outlook. The current planning framework is robust, but the Council faces a period of sustained financial pressure. It may become progressively more difficult to identify and achieve savings in the later tranches.</p>	 Amber

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# Financial Control





## Internal arrangements

Area of focus	Summary observations	Assessment
<b>Key Financial Accounting Systems</b>	The Council's main accounting systems have been in place for a number of years. Officers have a comprehensive understanding of the systems and interrogate them to run specialist reports as needed.	 <b>Green</b>

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# Financial Control

## Internal and external assurances

Area of focus	Summary observations	Assessment
<b>Finance Department Resourcing</b>	The Council has a stable finance team with little turnover in recent years. There is a strong history of early accounts closedown and consistent quality and timeliness in financial reporting. Officers are technically aware and the 2012/13 accounts have been prepared to a high standard with few amendments required.	 Green
<b>Internal audit arrangements</b>	<p>Internal audit review all of the Council's key financial systems annually. In 2012/13 the only limited assurance opinion on these systems was on the system for housing and council tax benefits, where a number of recommendations to improve controls have been accepted by management.</p> <p>The effectiveness of internal audit is reviewed annually by the Management Team. In 2012/13 it concluded that internal audit provided substantial assurance on the adequacy of the control environment.</p>	 Green
<b>External audit findings</b>	In recent years external audit annual audit letters have commented on the strength of the Council's financial management arrangements. We propose to issue an unqualified opinion and VFM Conclusion for 2012/13.	 Green
<b>Assurance framework/risk management</b>	Both corporate and operational risk registers are maintained with RAG ratings. There is regular updating of key risks with formal reporting to the management team and twice per annum to the Audit Committee.	 Green



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