

Taunton Deane Borough Council

Corporate Governance – 23 September 2013

External Audit 2012/2013 – Financial Resilience Report

Report of the Strategic Director (Shirlene Adam)

This matter is the responsibility of the Leader of the Council, Cllr John Williams

Executive Summary

This short covering report introduces the Annual Financial Resilience report prepared by our external auditors Grant Thornton.

The report, which will be presented by our external auditors, summarised the findings from their review of our arrangements to secure financial resilience.

1. Background

- 1.1 The Council has received an “unqualified” opinion on the external audit “value for money” conclusions for 2012/13. It is pleasing to note that the headline finding of our arrangements is “green” (meaning arrangements meet or exceed adequate standards).

2. Key Issues Emerging From The Audit

- 2.1 There are some issues flagged as “amber” (meaning potential areas of risk) in the report that we need to focus on moving forward. None of these matters are a surprise and we have plans in place to progress where appropriate.

3. Financial Issues / Comments

- 3.1 The findings reflect the robust planning systems in place at the Council. Members should however note the significant challenges ahead and ensure they remain committed to the approach to budget setting outlined in the report to Corporate Scrutiny in September 2013.

4. Legal Comments

- 4.1 There are no legal implications from this report.

5. Links to Corporate Aims

- 5.1 Ensuring the Council has plans in place to maintain financial resilience will ensure we can continue to focus on the priorities agreed by Members.

6. Environmental and Community Safety Implications

6.1 No direct implications.

7. Equalities Impact

7.1 No implications.

8. Risk Management

8.1 The issues flagged in the action plan will be reviewed and if appropriate, entered in service, corporate or project risk registers.

9. Partnership Implications

9.1 No implications.

10. Recommendation

10.1 Members are requested to note the report from our external auditors on the Council's arrangements to secure financial resilience, and to support the action plan in the report (agreed by the s151 Officer).

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Review of the Council's Arrangements for Securing Financial Resilience for Taunton Deane Borough Council

Year ended 31 March 2013

September 2013

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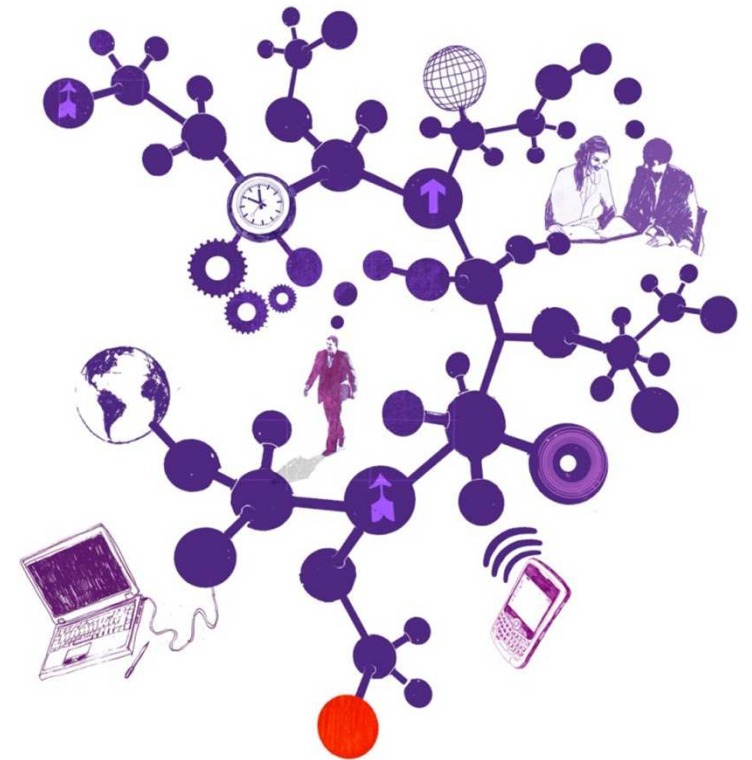
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to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

In a period of austerity, the Council has to date managed its finances effectively. Therefore, we assess the current arrangements for achieving financial resilience as adequate.

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 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 be 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 borough of Taunton Deane is mainly rural with a Population of 110,000, largely concentrated in the County town of Taunton (population of 66,000). The borough covers 462 sq km..

The age profile of Taunton Deane shows an underrepresentation in 20-39 year olds compared to the England average but a much higher proportion of over 65s and forecast to increase further up to 2030.

The funding settlement for 2011/12 and 2012/13 has seen the Council's formula grant reduce by £1.6m in cash terms or 22.9%. In spite of these reductions in funding the Council has generated underspends in the past two years to support balances while freezing council tax.

For 2013/14 the formula grant for 2013/14 sees a further reduction of 5.4% and the funding baseline is due to reduce by 12.7% in 2014/15.





The Council's new Corporate Business Plan recognises that the Council will need to transform the way services are delivered to ensure that the Council is financially sustainable in the medium term.

The Council also has an ambitious capital programme to meet its key strategic priorities of economic development and growth for Taunton.

In summary, the Council has to reduce significantly its day to day spending to deliver a sustainable budget whilst delivering an ambitious capital programme to generate economic development.

Executive Summary

Overview of Arrangements

Risk area	Summary observations	High level risk assessment
Key Indicators of Performance	<ul style="list-style-type: none"> The Council has underspent against its General Revenue budget in each of the last three years. The Council has underspent against its Housing Revenue budget in each of the last two years. Reserves have increased in the last financial year and have been properly assessed to protect the Council against key financial risks. The Council's liquidity ratio for the last financial year (2012/13) is well within accepted levels. The Council has a high and increasingly high level of staff sickness absence which now stands at an average of over 10 days per annum for each member of staff. 	 Green
Strategic Financial Planning	<ul style="list-style-type: none"> The Council annually produces a five-year Medium Term Financial Plan (MTFP). The MTFP covers financial issues that the Council will face during the five year period. The MTFP approved in February shows an initial budget gap of £1.1 million in 2014/15 which the Council expects to address before setting the budget in February 2014. Underspends from previous years and use of new homes bonus may help address this gap as the Council sets its budget for next year. The Council also has a medium term financial plan for its housing revenue account (HRA). In the 30 year business plan to prepare for the move to self financing, the Council committed itself to increase its minimum HRA reserves balance to £1.8m (or £300 per property) and to take on borrowing for £85.2m. 	 Green
Financial Governance	<ul style="list-style-type: none"> There is a clear understanding of the financial environment within the Council. There is appropriate engagement with stakeholders, Members and staff. There are adequate financial governance and monitoring arrangements in place at Member and officer level. 	 Green
Financial Control	<ul style="list-style-type: none"> The Council's arrangements to monitor delivery of the budget are robust and there are sufficient reserves to cover any slippage in savings programmes. But there is no specific monitoring of the delivery of overall savings for the Council. Internal audit reviews of the financial systems for control of creditor payments and for debtor receipts provided only partial assurance. For creditors, there is a high level of retrospective purchase orders and incomplete cleansing of the master data file. For debtors, there were significant weaknesses in debt monitoring and recovery. 	 Green

Executive Summary

Next Steps

Area of review	Key points for consideration	Responsibility	Timescale	Management response
Key Indicators of Performance	The Council should consider what further measures it needs to undertake to reduce the high level of sickness absence.	Shirlene Adam, Strategic Director	March 2014	The Council will continue to monitor its arrangements for managing attendance and sickness absence and make improvements to systems where necessary.
Strategic Financial Planning	The Medium Term Financial Plan (MTFP) approved in February shows a budget gap of £1.1million in 2014/15 and the Council will need to identify the actions to close this gap.	Shirlene Adam, Strategic Director	February 2014	The Council is revising its MTFP and identifying savings plans to close the gap. Sharing services with West Somerset will help close the gap in the medium term but the Council still needs to find its own savings.
Financial Governance	None			
Financial Control	The Council should consider reporting the progress against delivery of its savings plans.	N/A	N/A	The Council has already achieved the saving before the beginning of the financial year and the savings plan does not need to be monitored.
	The Council should address the weaknesses identified by Internal Audit in the financial systems for creditors and for debtors.	Shirlene Adam, Strategic Director	December 2013	The Council has agreed an action plan with Internal Audit, which Internal Audit will review at a follow up audit in the autumn.
	The Council should address the previous recommendation to develop benchmarking to support decisions in allocating resources.	Shirlene Adam, Strategic Director	March 2014	The Council has started gathering data to allow benchmarking information to assist and support decisions moving forward (as we embark on a period of potential major change re shared services and organizational transformation)

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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
- Long term borrowing to tax and HRA revenue
- Long term borrowing to long term assets
- 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:

Braintree District Council
South Somerset District Council
Wychavon District Council
Tewkesbury Borough Council
St Edmundsbury Borough Council
South Kesteven District Council
Rugby Borough Council
Stafford Borough Council
Stroud District Council
Mendip District Council
Wyre Forest District Council
Ashford Borough Council
Newark and Sherwood District Council
Babergh District Council
High Peak Borough Council




Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Performance Against Budgets: revenue & capital	<p>In each of the last three financial years, General Revenue Fund expenditure has been below budget. In the last financial year, the final outturn was an underspend of £0.7 million..</p> <p>Similarly, Housing Revenue Account (HRA) expenditure has been at or below budget in the last two years after two previous years of large variations against its budget (but these variations were largely due to technical reasons associated with changes to national arrangements for housing subsidies) .</p> <p>Capital Expenditure in the last financial year (2012/13) of £7.8 million was almost exactly on budget., following an underspend in the previous year of £3 million.</p>	 Green
Liquidity	<p>The working capital ratio indicates if an authority has enough current assets (cash and debtors) to cover its current liabilities (creditors) in the next twelve month period. A ratio of assets to liabilities of 2:1 is usually a good measure, whilst a ratio of less than one might indicate a liquidity problem.</p> <p>In 2011-12 , Taunton Deane has a working capital ratio of 1.25:1 which was relatively low against the comparator group of authorities. Whilst we do not yet have the ratio for the comparator group for the last financial year (2012/13), we do know that the ratio for Taunton Deane has improved to above 2:1.</p> <p>The most recent figures for Council Tax collection for 2012/13 shows Taunton Deane at 98% which is slightly below the average of the comparator group of 98.3% but is in line with the average for all district councils.</p> <p>For non domestic rates (NNDR) Taunton Deane's collection rate at 99.4% is in the top 20% in the comparator group whose average is 98.5%. Taunton Deane is in the top 20% of NNDR collection rates of district councils in the country.</p>	 Green

Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Borrowing	<p>In March 2012 the Council took out long term borrowing of £85.2m for the self financing of its housing revenue account (HRA). This further increased the Council's long term debt to £94.4million. However, this borrowing as a ratio of its long term assets is the lowest in its comparator group of councils with an HRA.</p> <p>The Council sets out its Treasury Management Statement and Strategy before the beginning of the financial year and reports its performance no later than 6 months after the year end. The Council has set out an ambitious capital programme, partly financed through an increase in borrowing over the five year period. However, the projected HRA borrowing still remains under the limit of £115.8 million set by the Government.</p>	 Green
Reserve Balances	<p>In 2010/11 and 2011/12 the Council used up some its reserves but in 2012/13 the trend was reversed where General Fund and HRA reserves as well as capital receipts and the major repairs reserve have all increased. The net increase in total usable reserves in 2012/13 was £8.6 million.</p> <p>The Council has consistently maintained its general fund balance above the minimum level it has set. This minimum level was increased to from £1.25m to £1.5m in January 2013 in response to the increased risks to financial forecasting from the uncertainty of particular Government funding reductions combined with the general impact of the economic climate.</p>	 Green
Workforce	<p>Taunton Deane's sickness absence levels have remained above the local government, public sector and private sector averages throughout the five year period between 2007/08 and 2011/12, with the highest difference in 2011/12. Furthermore, there has been a further increase in sickness levels in the last financial year to 10.48 days per FTE from a previously high level in 2011/12 of 9.96 days per FTE.</p> <p>In July 2013, the Council revised its policy on 'well-being and sickness absence' and reported to Corporate Scrutiny in July 2013.</p>	 Amber

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Appendix 1 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

Area of focus	Summary observations	Assessment
Focus of the MTFP	<p>The Council's medium term financial plan (MTFP) outlines how the budget will be delivered over the medium to long term. The MTFP at Taunton Deane covers five years to show the likely longer term picture. Updates on the Medium Term Financial Plan and latest Budget Gap estimates have been reported to Corporate Scrutiny in June, September and November 2012. It is updated each February to inform budget setting for the following year.</p> <p>In formulating the MTFP, the Council has focussed on both the key areas of risk and uncertainty, particularly in the areas of national non domestic rate and welfare reform and the continuing pressure and uncertainty in government funding.</p> <p>The Council also has a medium term financial plan for its housing revenue account (HRA). In the 30 year business plan to prepare for the move to self financing, the Council committed itself to increase its minimum HRA reserves balance to £1.8m (or £300 per property) and to take on borrowing for £85.2m . The HRA MTFP is reviewed as a minimum once each year and sets out the projected income and expenditure over the next 5 years. The assumptions in the business plan underpin the MTFP.</p>	 Green
Adequacy of planning assumptions	<p>The MTFP includes key assumptions covering , government funding and legislative changes, income-generating activities, inflation, managing assets effectively to help deliver strategic priorities and service need , assessment of strategic priorities and effectiveness of current priorities and savings plans.</p> <p>The MTFP assumes an annual reduction of 10% in external support (Revenue Support Grant and Retained Business Rates), leaving a predicted budget gap of £1.1m in 2014/15, which is the starting point for the next round of savings plans.</p>	 Green
Scope of the MTFP and links to annual planning	<p>In May 2012 the Executive agreed to replace the Council's Corporate Strategy by developing a three year Corporate Business Plan. This plan envisages a review of the management of the Council's assets and its accommodation at Deane House. In January 2013 the Asset Management Plan was presented to the Executive where there are clear links with the Council's finances. "The Council therefore seeks to minimise the level of borrowing required to finance capital expenditure by maximising grants and contributions received and ensuring that any surplus assets are sold."</p> <p>The emerging Corporate Business Plan 2013-16 says: "We will use our assets more efficiently, rationalising them to provide income. We will borrow and invest to save to meet our priorities."</p>	 Green

Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
Review processes	<p>The MTFP is kept under review in the light of changing events and it is updated each February before budget setting. There are revisions following any Government announcement in funding arrangements. Revisions are presented to the Executive and Scrutiny. Members of the Scrutiny Committee have also been involved in reviewing savings plans to feed into the MTFP. There is ample opportunity for councillors to influence the financial planning at Taunton Deane.</p> <p>The plan takes into account changes in legislation, and announcements on Government funding, delivery of savings plans. The budget monitoring process identifies where savings plans are not being delivered where a variance develops.</p> <p>All members were issued with a budget consultation pack in December 2012, including initial service options and the budget gap, which at the time stood at £44,000. The draft General Fund budget for 2013/14 was presented to Corporate Scrutiny on 24 January for comment and suggests any recommended amendments to the Executive's draft budget.</p> <p>Councillors recognise the need for the strategic review of services that will be driven through the implementation of the new Corporate Business Plan.</p>	 Green
Responsiveness of the Plan	<p>The Council has employed realistic scenario planning in its Plan in terms of inflation and assumptions on the continuing reductions in formula grant and receipt of new homes bonus based on estimates for housing growth.</p> <p>In terms of new homes bonus, the Council has decided to use three years of new homes bonus of £2.4 m to support a key corporate aim to finance infrastructure projects to support economic growth and regeneration.</p> <p>The Plan sets out risks to the modelling and the sensitivity of assumptions:</p> <ul style="list-style-type: none">• Impact of the use of principal on investment income• Business rate retention – Council tax reduction scheme – assumed a 10% cut• Wider economic factors including welfare reform – impact on revenues' collection rates, homelessness, interest rates, demand for chargeable services• DLO transformation• Community Infrastructure Levy <p>A table sets out the sensitivity (by percentage and value of certain cost areas e.g. 1% pay = an additional £86K of cost). In July the Council, in conjunction with West Somerset agreed to share a chief executive to begin the process of assessing the feasibility of sharing services to deliver the significant budget savings needed for both councils.</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 Executive 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 Corporate Management Team and Executive clearly understand the financial environment in which they operate and there is regular communication with members regarding key changes to the financial environment such as localisation of Council tax benefits and the pooling of business rates.</p> <p>There are financial briefings to the Executive and other member groups about the updates to the Medium Term Financial Plan and identification of the budget gap.</p> <p>The Medium Term Financial Plan and financial updates clearly set out the financial pressures facing the Council.</p> <p>The Council's commitment to communicating financial issues is demonstrated through regular workshops to discuss financial planning and savings plans and the financial training provided to members, including the Corporate Governance Committee.</p> <p>Financial instructions & standing orders cover financial management responsibilities.</p>	 Green
Executive and Member Engagement	<p>There is strong officer and member involvement in the budget setting process. Budget workshops are held as part of the process and include officers, members and external stakeholders.</p> <p>The Strategic Director – Section 151 officer - is a member of the Corporate Management Team and attends Executive, where she provides the financial expertise to support the decision making process. The S151 officer organises workshops with members of to discuss the financial challenges facing the Council. Finance officers present financial updates to staff so that they are fully engaged in the process to find savings.</p> <p>The Corporate Governance Committee provides effective challenge on financial matters and the Corporate Scrutiny Committee is involved in the review of the savings plans and budgets before being approved by Council. For the 2013/14 budget setting process there was a Corporate Scrutiny review to look at the proposed budgets.</p> <p>Members receive training in finance as part of the induction process with additional training available if required. Members and officers are sufficiently financially aware and aware of the key risks facing the Council.</p>	 Green

Financial Governance

Understanding and engagement

Area of focus	Summary observations	Assessment
Overview for controls over key cost categories	<p>It is the responsibility of Managers to control income and expenditure within their area and to monitor performance, taking account of financial information provided by the Section 151 Officer. They report on variances within their own areas. They also take any action necessary to avoid exceeding their budget allocation and alert the Section 151 Officer to any problems. Any changes to the overall budget must be considered by the Executive for onward submission to full Council for approval.(Financial Regulations and Procedures).</p> <p>Budget monitoring reports are considered quarterly by the Executive.</p>	 Green
Budget reporting: revenue and capital	<p>There is regular budget reporting to the Executive (quarterly). Reports show the original budget, current budget and year end forecast for each service with an explanation of any variance.</p> <p>The quarterly budget updates to Executive set out movements in reserves and the estimated general fund balance and there are updates against the risks identified in the budget setting report.</p> <p>There are quarterly reports to the Executive on capital budgets with explanations of slippage or overspends. Expenditure is re-profiled into future years (up to five years in advance).</p>	 Green
Adequacy of other Committee/ Cabinet Reporting	<p>The Council has significant borrowings of £94m following HRA self financing and the Treasury Management Strategy Statement and Investment Strategy is reported to the Executive, which actively engages in the consideration of risks and rewards. The analysis of risk and forward planning are comprehensive. There are quarterly performance reports to the Executive, covering collection rates for council tax and non domestic rates.</p> <p>There is reporting of the risk register and risk management arrangements to the Corporate Governance Committee, which can view the mitigating actions taken by the Council.</p>	 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
Budget setting and monitoring - revenue and capital	<p>The 2012-13 revenue and capital budgets were approved in February 2012 at a meeting of the full Council. This followed a detailed process of challenge and review using the medium term financial plan (MTFP) as a foundation document for the budget setting process through Executive and Corporate Scrutiny.</p> <p>There are quarterly monitoring reports to the Executive including a summary for each service (with more detail as an appendix). The budget is updated to inform the budget setting of the following year. The Quarter 3 Performance and Monitoring Report for 2012/13 was presented to the Executive in March 2013 and showed a potential underspend of £0.35m which increased in the final quarter to give an underspend of £0.71m by the end of the year, which was reported in a final outturn report to Members in June.</p>	 Green
Performance against Savings Plans	<p>In setting its budget for 2012/13 the Council identifies savings incrementally to address the budget gap. In February 2012 the report to the Executive showed a gap since Corporate Scrutiny in November 2011 of £0.7m. which had been addressed by a series of initiatives including further savings plans. Once the budget is approved the savings plans are incorporated into the budget monitoring process (reviewed each quarter by the Executive).</p> <p>The Council's arrangements to monitor delivery of the budget are robust and there are sufficient reserves to cover any slippage in savings programmes but there is no specific monitoring of the delivery of overall savings for the Council. The final General Fund underspend of £0.71m was greater than that forecast at the end of Quarter 3 of £0.35m, reported to the Executive in March 2013.</p>	 Amber
Key Financial Accounting Systems	<p>Internal audit have reviewed the critical financial systems during the year. There were two audits that received partial assurance – creditors and debtors. For creditors there is a high level of retrospective purchase orders, incomplete cleansing of the master data file. Internal audit found that there were significant weaknesses in debt monitoring and recovery.</p>	 Amber


Financial Control

Internal and external assurances

Area of focus	Summary observations	Assessment
Finance Department Resourcing	<p>The Council's financial services are provided under contract with South West One. There are key performance indicators agreed in the contract which are monitored by the client. The client function for finance is the Strategic Director (S151 officer) and the Strategic Finance Officer.</p> <p>The Finance staff are well experienced, with a number of qualified accountants in post.</p>	 Green
Internal audit arrangements	<p>The Council has an effective internal audit function which complies with CIPFA standards. The internal audit function was an an internal audit consortium, South West Audit Partnership (SWAP) which is now a company limited by guarantee. SWAP provides internal audit services to other Somerset Councils as well as coverage in Wiltshire, Dorset, East Devon and Forest of Dean. The Audit Committee approves the internal audit plan on an annual basis and receives quarterly updates on key findings and progress with the planned reviews.</p> <p>The Strategic Director reports her annual review of the effectiveness of the delivery of Internal Audit through SWAP (South West Audit Partnership) during 2012-13. Recommendations are made and followed up and progress reported to the Corporate Governance Committee.</p> <p>In June 2013 the Group Internal Auditor concluded that he was "...able to offer reasonable assurance in respect of the areas reviewed during the year, as the majority were found to be adequately controlled. Internal controls are in place and operating effectively. Risks are generally managed, although there are some areas that require the introduction or improvement of internal control to help achieve TDBC's services and corporate objectives..."</p>	 Green
External audit arrangements	<p>The 2011/12 Annual Audit letter and Annual Governance Report summarised the work performed by the Council's previous auditors, the Audit Commission. An unqualified audit opinion and value for money (vfm) conclusion were given. The reports did not highlight any significant concerns for the Council to address. There were recommendations and an action plan for improvement. There were two recommendations arising from the vfm work in 2011/12 – updating the HRA financial model and developing benchmarking.</p> <p>The Council has updated its HRA financial model for actual changes in housing stock – such as sales, demolitions and voids. Benchmarking has been used by the Council but not yet in decision making for allocating resources. This is the second year that this recommendation has been carried forward in the Council's Annual Governance Statement. The Council needs to develop its understanding of comparative unit costs and performance of other local authorities to inform allocation of resources.</p>	 Amber

Financial Control

Internal and external assurances

Area of focus	Summary observations	Assessment
Assurance framework/risk management	<p>The Council manages risks through a Corporate Risk Register that has been reviewed regularly by the Corporate Management Team (e.g. September 2012, February 2013 and May 2013). This reviewed identified any new strategic risks and whether any Theme or Service risks needed to be escalated into the Corporate Risk Register.</p> <p>The Corporate Governance Committee is responsible for monitoring the corporate governance of the Council. It receives regular reports on way risk is being managed in the Council. Members' key tasks in relation to Risk Management are:</p> <ul style="list-style-type: none">• Approving the Risk Management Strategy and implementation plan.• Monitoring the effectiveness of the Council's risk management and internal control arrangements.• Reviewing Corporate Risks <p>The Corporate Governance Committee also reviews the Annual Governance Statement (AGS) in May before being signed in June. The review for the 12/13 statement was led by the Deputy s151 Officer, supported by the Monitoring Officer, the Council's Audit Manager and Performance Lead Officer. The review was informed by:</p> <ul style="list-style-type: none">• LGA Peer Review• Internal Audits annual opinion report for 2012/13• The effectiveness of internal audit review• External auditors comments• The Councils Corporate Governance Action Plan• Input From The Work Of the Standards Committee• Performance Monitoring Reports	 Green

1 Executive Summary

2 Key Indicators

3 Strategic Financial Planning

4 Financial Governance

5 Financial Control

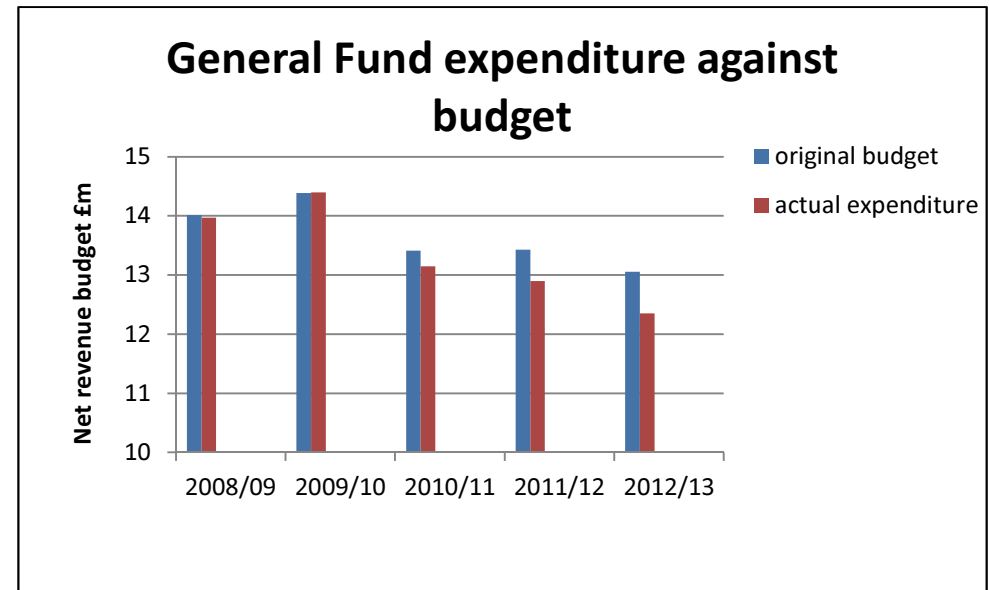
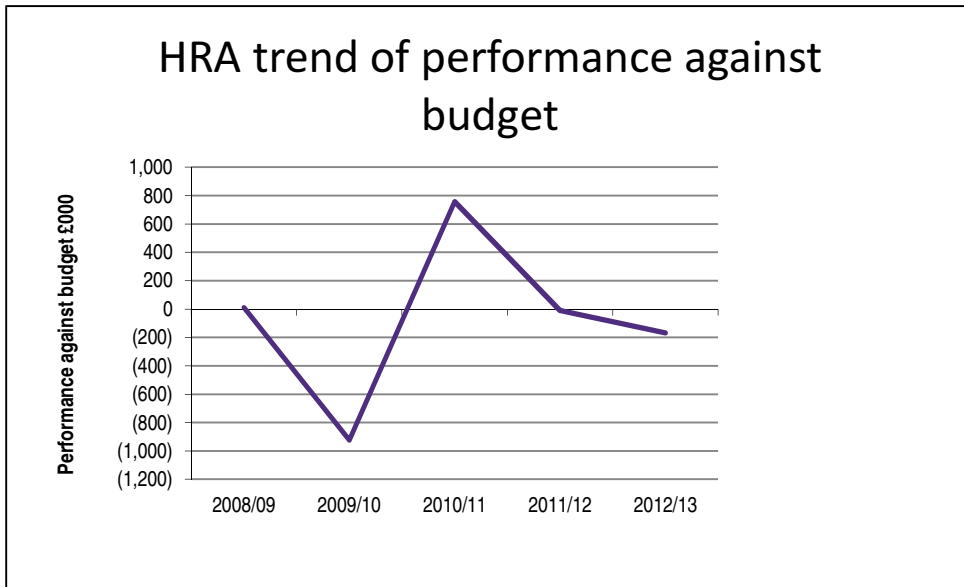
Appendix - Key indicators of financial performance

Performance against budget

The Council has a trend of underspending against its original budgets over the last three years which has helped it maintain its balances well above the minimum levels. As well as updating financial forecasts throughout the year, the Council produces revised budgets at the same time as preparing the following year's budget. The Medium Term Financial Plan (MTFP) is revised as part of the budget setting every January and there was an update in July 2012 to take into account changes in formula funding.

In the Quarter three monitoring report to Executive in March 2013 the Council was forecasting an underspend of £0.35 million. The final outturn was an underspend of £0.71m.

The most significant areas of underspend are Housing and Council Tax Benefits (£131,000), NNDR (£142,000), Waste and Recycling (£101,000), Planning Services £68,000, Parks and Open Spaces and Interest Income £177,000, offsetting a fall in income from car parks of £256,000



Forecasting of HRA expenditure has become more accurate in the past two years following some large variances in 2009/10 and 2010/11. These variances had related to changes in housing subsidy estimates and were of a technical nature.

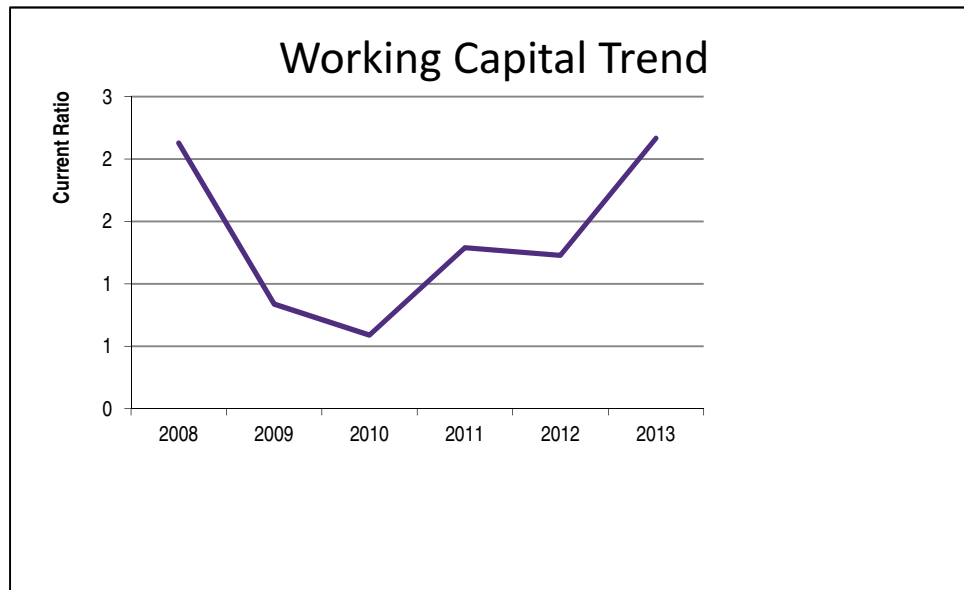
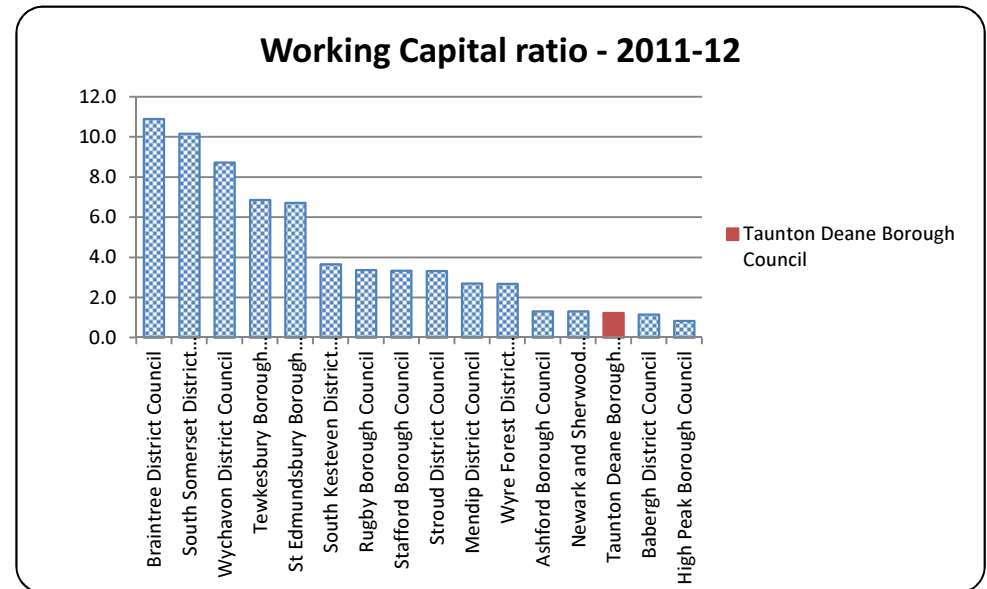
In February 2012 the Council approved the HRA capital budget of £5.5m and spent £4.65million - an underspend of £0.85m (of which £0.653m was slipped into 2013/14).

For the General Fund, the capital programme of £7.8m (which is £0.36m more than the budget reported to Executive in March 2013 of £7.4 m) has slippage of £3m carried forward in 2013/14 and an underspend of £37,000.

Working capital ratio

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 – may indicate 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

Comparing Taunton Deane's working capital ratio with its comparator group at 31 March 2012 it had the 3rd lowest but since 2012 the ratio has increased from 1.2 in 2002 to 2.2 in 2013. The increase is due to an increase in cash – up by £4.6m and a decrease in short term creditors of £3m. Taunton Deane paid the self financing settlement of £85m to the Government in March 2012 and it no longer has to pay housing subsidy each year of £7m which explains much of the change in liquidity. However, it does need to generate cash to repay the £85m in stages over 30 years.

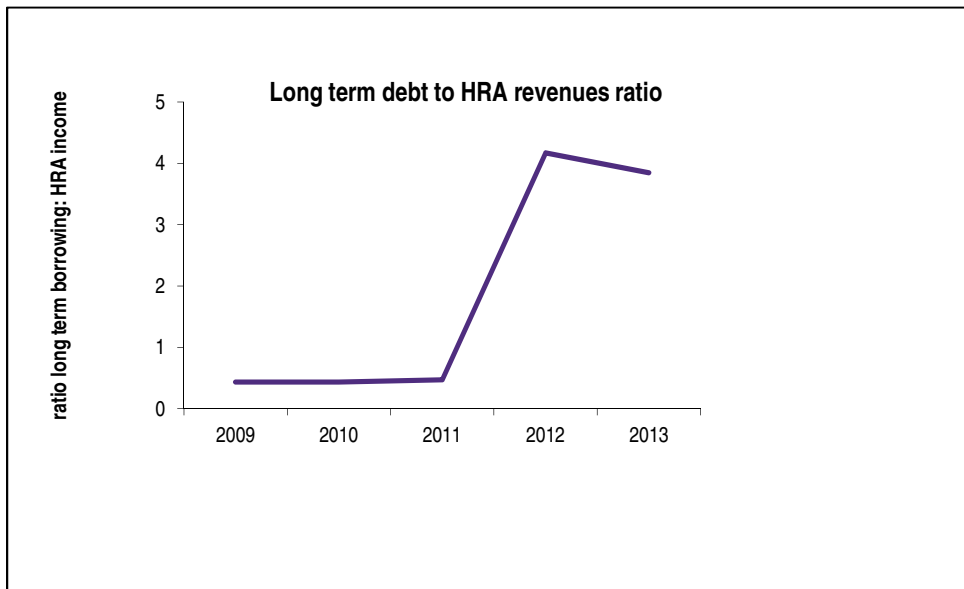
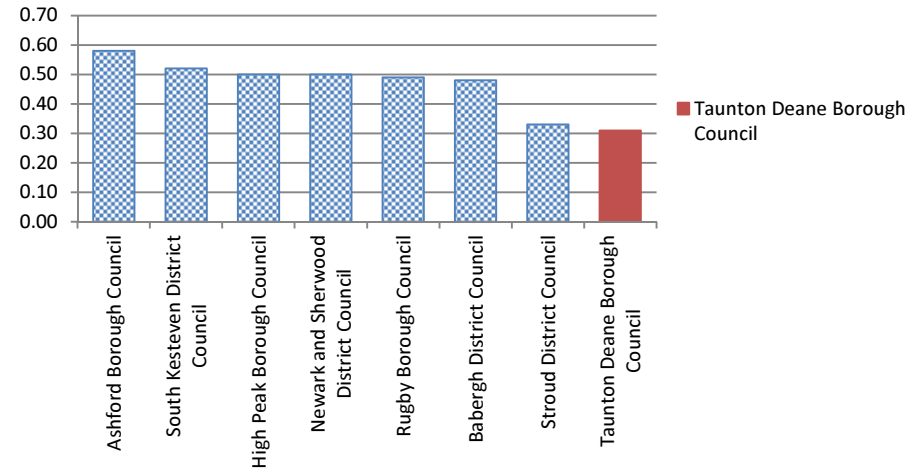
Long term debt

The Council's long term borrowing increased from £10 million to £94.4 million due to the fact that Taunton Deane took out additional loans of £85 million for self-financing of the HRA in March 2012.

This graph shows only the councils in the comparative group with HRAs and were similarly affected by the government's changes to the housing subsidy system.

The graph shows that Taunton Deane's long term debt to long term assets is the lowest in this HRA comparator group.

Long term debt to long term assets for comparator group with HRAs 2011/12



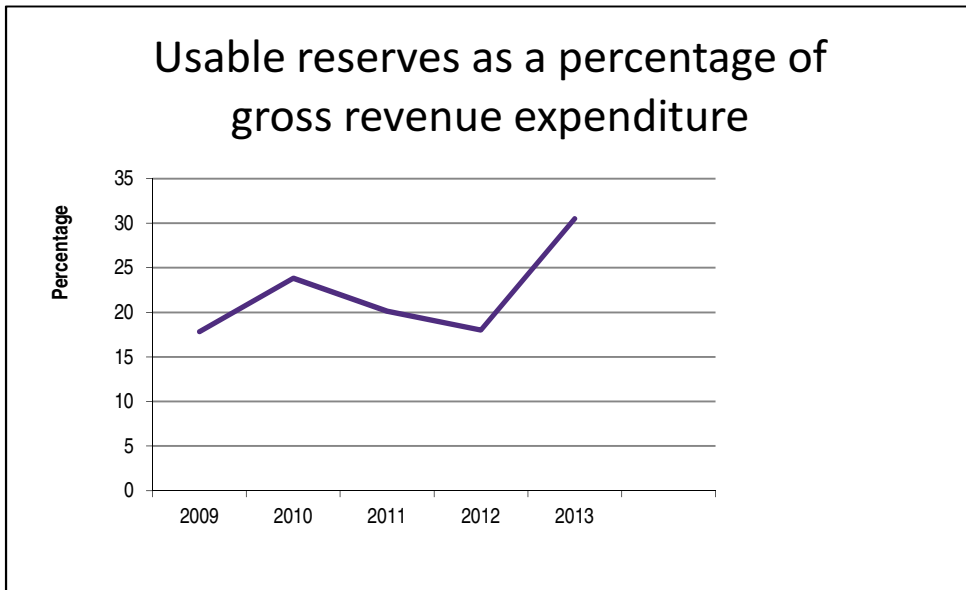
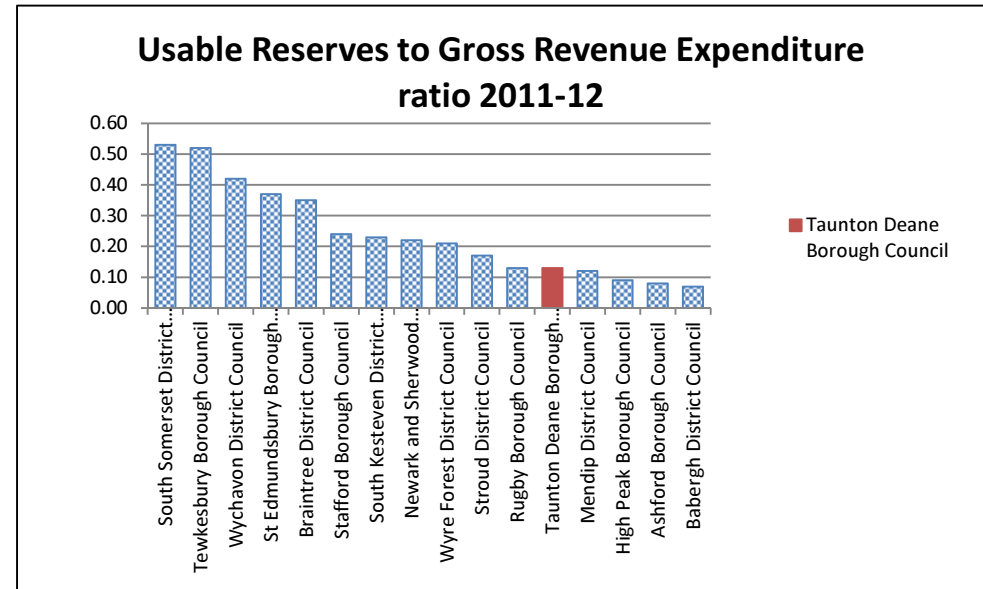
All of Taunton Deane's borrowing is now related to the HRA and long term borrowing has been shown as a multiple of annual HRA income.

The peak in March 2012 represents the additional borrowing for HRA self financing. The impact of rent increases reduces this ratio over time. However, the sales of council dwellings reduce income.

Reserves

Taunton Deane's usable general fund reserves and balances at 31 March 2013 amounted to £11.4 m and its HRA balances and reserves amounted to £3.6m.

The comparator group shows general fund reserves and balances as a proportion of gross revenue expenditure including the housing revenue account. If Taunton Deane's ratio is calculated to exclude HRA expenditure then the ratio increases from 0.13 to 0.17 in 2011/12. This would place the Council closer to the centre of the comparator group. In 2012/13 there was a significant increase in balances and reserves – reflecting the increase in capital receipts (from the sales of council dwellings) and £2m added to the major repairs reserve. This would place the Council in the above average category.



In 2010/11 and 2011/12 the Council used up some its reserves but in 2012/13 the trend was reversed. General Fund and HRA reserves as well as capital receipts and the major repairs reserve have all increased. The net increase in total usable reserves in 2012/13 was £8.6 million.

In January 2013 the Council increased the minimum level of general revenue balances from £1.25million to £1.5 million due to the uncertainty of particular Government funding reductions combined with the general impact of the economic climate. The Council undertakes a risk based calculation annually (usually January prior to budget setting) to ensure the level is still appropriate.

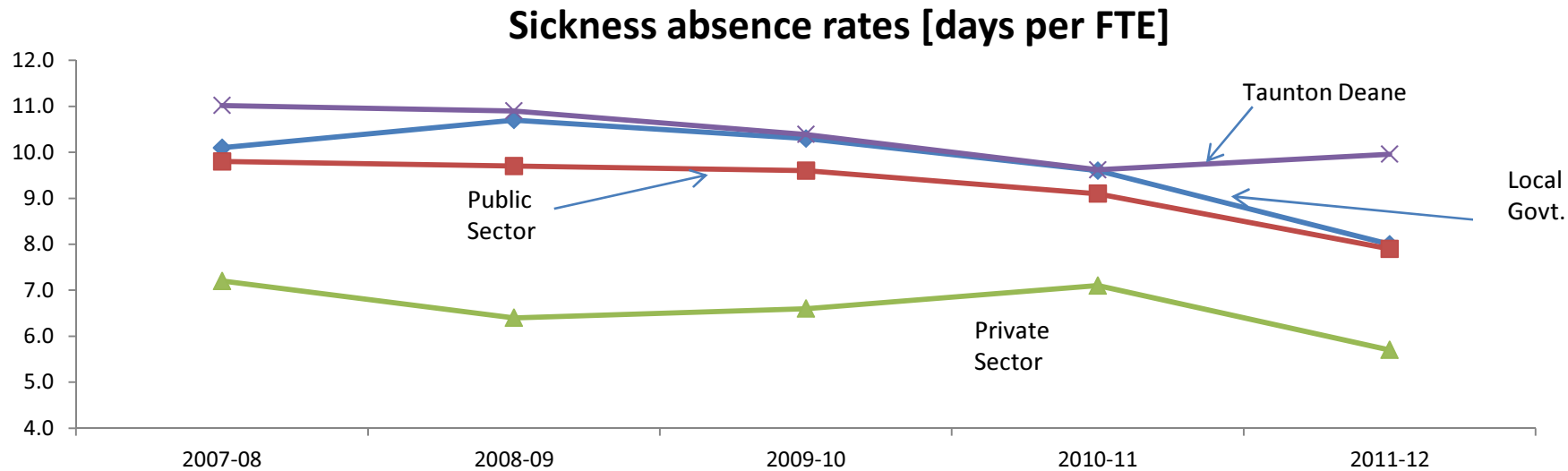
Sickness absence levels

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 days. Many councils have taken a proactive approach to reducing the number of days lost to sickness each year.

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

Taunton Deane's sickness absence levels have remained above the local government, public sector and private sector averages between 2007/08 and 2011/12 with the greatest difference in the final year of comparison 2011/12. Furthermore, there has been an increase in Taunton Deane's average from 9.96 in 2011/12 to 10.48 days in 2012/13. Sickness absence levels have an appropriate profile in quarterly performance reporting to members. The Council recognises that its performance is in the worst quartile and has revised its well-being and sickness absence policy and reported to Corporate Scrutiny in July 2013.





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