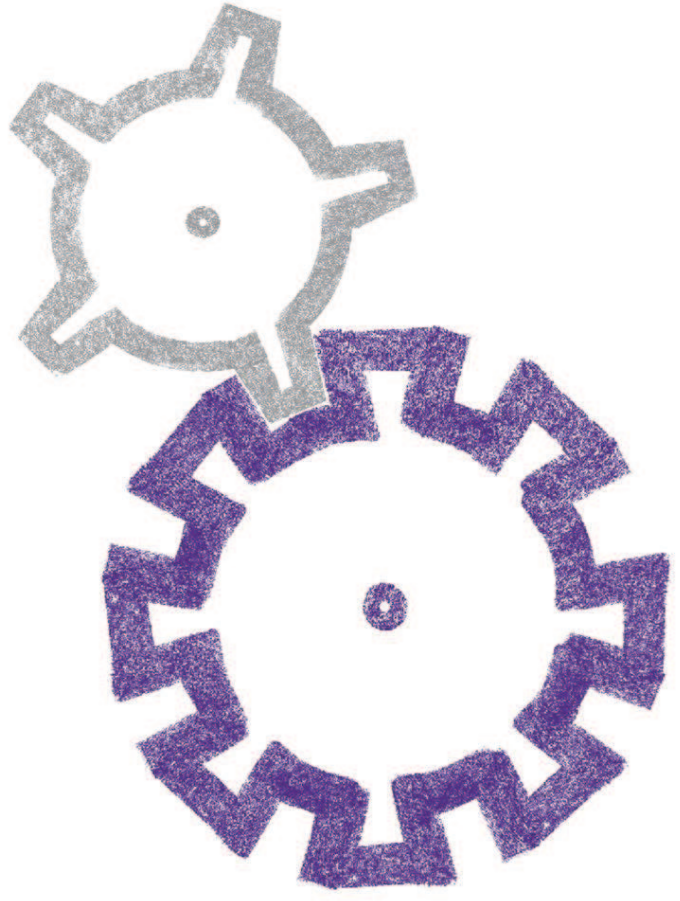


Tamworth Borough Council
**Review of the Council's Arrangements for Securing Financial
Resilience**

26 September 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 comprises a review to determine if the Council has proper arrangements in place for securing financial resilience.

In so doing we have considered whether the Council has robust financial systems and processes in place to manage its financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future. We have carried out our work in discussion and agreement with officers and completed it in such a way as to minimise disruption to them.

The definition of foreseeable future for the purposes of this financial resilience review is 12 months from the date of this report.

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

- Key indicators of financial performance;
- Its approach to strategic financial planning;
- Its approach to financial governance; and
- Its approach to financial control.

Further detail on each of these areas is provided in the sections of the report that follow. Our overall conclusion is that whilst the Council faces challenges during 2012/13 and beyond its current arrangements for achieving financial resilience are adequate.

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 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 at least 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



Tamworth Borough Council sits in the south of Staffordshire County in the West Midlands. The Borough comprises of one main town, Tamworth as well as eight surrounding villages. Tamworth itself was once the capital of the ancient kingdom of Mercia, and is home to a number of historical centres as well as modern day attractions. The Borough has a population of some 77,000 people, which is predicted to experience a relatively low projected increase. There is a growing ageing population in common with the rest of the County and most local people are from a White British background.

There are very few areas in Staffordshire which have a high level of multiple deprivation, although Tamworth ranks second highest out of all the Staffordshire Districts. The Council also has the lowest proportion of the working age population qualified to NVQ level 2+ in the County. Unemployment rates are lower than average nationally and also within the County.

The Borough has, along with other councils in England, been affected by the spending cuts at a time of increased demand for public services. As a result of the spending review, it has had its funding cut by £1.8m over two years.



Executive Summary

Overview of Arrangements

Risk area	Summary observations	High level risk assessment
<p>Key Indicators of Performance</p> <p>The Council reported a deficit in 2012/13 of £102k. This was after the transfer of £300k to earmarked reserves.</p> <p>Excluding the Housing Revenue Account (HRA), the Council had £11m of revenue balances at year end 2012/13. Of this balance £6.4m are earmarked to particular schemes leaving unallocated general fund balances of £4.6m. This puts the council in a relatively strong starting position. However, current projections show that the Council will need to use almost all of the remainder of the general fund balances to meet budget shortfalls in the next few financial years.</p> <p>Collection of Council Tax remains challenging because of demographic factors and the welfare reform changes. The Council is continuously reviewing its procedures and carrying out benchmarking to ensure the collection rate is maximised.</p> <p>The Council's pension liability, in common with other Councils across Staffordshire, has increased during 2012/13 from £28m to £34m. The need for the pension fund to reduce this liability via increased employer contributions is likely to place significant additional pressure on the Council's general fund going forward.</p>	<p>The Council's Medium Term Financial Plan responds to changes and ensures that other corporate documents are aligned to it, to enable the Council to respond swiftly to external factors.</p> <p>The Plan is focussed on the use of reserves to maintain a balanced budget. This is unsustainable in the long term.</p>	<p> Amber</p>
<p>Strategic Financial Planning</p>	<p>The Council's Medium Term Financial Plan responds to changes and ensures that other corporate documents are aligned to it, to enable the Council to respond swiftly to external factors.</p> <p>The Plan is focussed on the use of reserves to maintain a balanced budget. This is unsustainable in the long term.</p>	<p> Amber</p>

Executive Summary

Overview of Arrangements

Risk area	Summary observations	High level risk assessment
Financial Governance	<p>There is executive and member challenge, and the Council engage in external consultation and ensure that the budget setting process meets the financial reality facing the Council.</p> <p>The Council has a good track record in delivering efficiencies. This is underpinned by effective monitoring of finances by departmental heads and formally assigned responsibilities for departmental savings. It will be important for the Council to continue to support this with training and support where needed.</p> <p>Arrangements for monitoring efficiencies and reductions and their impact on service quality and provisions are in place.</p>	 Green
Financial Control	<p>The Council has strong financial performance management and budgeting systems with an inclusive approach to stakeholders which underpin its financial control. The Council also considers financial information alongside related performance information linked to strategic objectives to oversee financial performance across the Council. This includes having an integrated approach to collecting and producing both financial and non-financial performance data.</p> <p>Internal audit arrangements are strong with clear workplans which are aligned to the risk profile of the Council.</p>	 Green

Executive Summary

Next Steps

Area of review	Key points for consideration	Responsibility	Timescale	Management response
Key Indicators of Performance	<ul style="list-style-type: none"> In the continued uncertain economic climate, the Council should seek to maintain appropriate levels of reserves The Council should continue to review its collection rate for Council Tax, given the impact of the welfare reform changes. 	Executive Director Corporate Services	Ongoing	

Executive Summary

Next Steps

Area of review	Key points for consideration	Responsibility	Timescale	Management response
Strategic Financial Planning	<ul style="list-style-type: none"> The Council should address the underlying deficit within its Medium Term Financial Plan. The Council should explore areas where costs could be reduced through closer working arrangements with other authorities. 	Executive Director Corporate Services	Ongoing	
Financial Governance	<ul style="list-style-type: none"> The Council should ensure it maintains a programme of training for members and officers with budgetary responsibility to add strength to the continued challenge presented by the current financial climate. 	Executive Director Corporate Services	Ongoing	
Financial Control	<ul style="list-style-type: none"> The Council should continue to review savings plans outlined in Departments to consider their impact upon service provision and to maintain their alignment to the Council's overarching efficiency plans. 	Executive Director Corporate Services	Ongoing	

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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. These indicators include:

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




We have used the Audit Commission's listing of all English District Councils for benchmarking group purposes.

Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Performance Against Budget	<ul style="list-style-type: none"> The Council's budget for 2012/13 involved the planned use of £782k reserves. The Council mainly through a reduction in general expenses, has achieved a saving in year. The 2012/13 performance was better than expected and the use of reserves was £669k less than originally planned. The Capital programme underspent. The Council spent £4.9m on capital projects being £4.7m lower than budget. 	 Green
Reserve Balances	<ul style="list-style-type: none"> The Council had £10.9m of revenue balances at year end 2012/13. Of this balance £6.4m are earmarked to particular schemes leaving unallocated general fund balances of £4.5m. The Council intends to utilise almost all of the remaining general fund balances to meet budget shortfalls in the next few financial years. We note that the unallocated general fund balances (at £4.5m) are in the highest 25% for all District Council's benchmark group in the Audit Commission value for money toolkit. However, the current plans mean that the reserves could be exhausted by 2017 if no remedial action is taken. There was a small call of £102k made on general reserves in 2012/13. A contribution of £300k was made to earmarked reserves in 2012/13. 	 Amber

Key Indicators

Area of focus	Summary observations	Assessment
Liquidity	<ul style="list-style-type: none"> Working capital ratio is 2.20. against an average of 2.450. As your current assets exceed your current liabilities, this indicates that the Council has sufficient assets to meet its short term liabilities. The percentage of Council Tax due collected averaged 98%. As part of the 2013/14 budget, the target percentage was reduced from 98.5% to 97.9% in face of the welfare benefit reform changes and the Council has brought in additional recovery staffing to pursue both council tax & business ratepayers in 2013/14 to ensure that collection targets are met . The percentage of NNDR due collected is 98% which is average for all District Councils. In terms of income streams as a % of total spend, Tamworth is in the highest 10% of bodies for income from grant, but in the lowest 20% for income from sales, fees and charges. At the year end £14m was held in cash balances. The Council manages liquidity by adhering to the CIPFA code of practice. 	 <p>Green</p>
Borrowing and other long term liabilities	<ul style="list-style-type: none"> We consider two borrowing indicators, long term borrowing as a share of long term assets and long term borrowing as a share of tax revenue. The Council's long term borrowing does not exceed its long term assets nor its tax revenue. The Council's pension liability has risen from £28.1m to £34.4m. Reducing this liability will continue to place significant pressure on the Council's general fund. 	 <p>Green</p>
Workforce	<ul style="list-style-type: none"> The Council's target absence level is 8.5 days per employee and absences are running very close to this level. Senior management have been placing greater emphasis on absence management in recent months and there may be scope to bring this down further. 	 <p>Green</p>

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Strategic Financial Planning

Key indicators of good strategic financial planning

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

- Focus on achievement of corporate priorities is evident through the financial planning process. The 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	High level risk assessment
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Review processes

- The Budget process involves appropriate scrutiny, and challenge from senior officers and members.
- The Council is made aware of key financial matters, receives quarterly budget updates, and is aware of the main risks facing them.
- All members receive a budget briefing each autumn in advance of the annual process.
- The Council continues to ensure that it keeps the Medium Term Financial Strategy updated to reflect current conditions. It is updated annually ahead of the budgeting process.

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Green

Responsiveness of the Plan

- There is clear evidence that the Medium Term Financial Plan (MTFP) is kept upto date and review in the light of changing events and this is reflected in the detailed financial monitoring and reporting which has been taking place in 12/13. The Council are able to react quickly to movements in the savings plan allowing members to react to positive and adverse movements in progress during the year. While the in year processes work well, the focus of the MTFP needs to be addressed.
- The Medium Term Finance Plan is focussed on the Council achieving savings identified within plans which are regularly discussed at leadership team meetings. The Plan does however require the use of reserves to balance the budget.



Amber

Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	High level risk assessment
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Focus of the MTFP

The Council has considered the uncertainty surrounding their financial position and the level of future government funding. Given the forecast reductions in central government funding the Council has sought to maintain current services by drawing on general fund reserves, savings programmes and changes in service delivery. It has also sought to prioritise areas for economic growth. However, the MTFP does not address the underlying deficit (reserves will be reduced to £0.5m by 2015/16), and the Council needs to reduce expenditure to a sustainable level as this level of reserves would be low for a district council.



Amber

Scope of the MTFP and links to annual planning

The proposals within the MTFP & the budget set for 2013/14 are adequately reflected in information, estates and workforce strategies and vice versa to ensure delivery. There are clear links within the MTFP to the Councils main strategic vehicle which is the One Tamworth, Perfectly Placed.



Green

Adequacy of planning assumptions

Assumptions made within the MTFP include nationally expected assumptions. Reference is made to policies for income-generating activities, inflation, managing assets effectively to help deliver strategic priorities and service need, assessment of strategic priorities through the Cabinet proposals, links to strategic objectives and details to support the savings plan as well as headroom.



Green

The MTFP clearly set out the Council's plans to utilise its reserves to ensure the budget is balanced.

Plans to increase car parking fees and charges by 2.5% are included within the MTFP. The Council remains in the lowest 20% of all District Councils across all services for income raised from sales, fees or charges.

Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	High level risk assessment
<p>Review processes and responsiveness of plan</p> <p>The MTFP is kept up to date and reviewed in the light of changing events and this is reflected in improved financial monitoring and reporting which has been taking place in 12/13. The Council are able to react quickly to movements in the savings plan allowing members to react to positive and adverse movements in progress during the year. While the in year process works well, the focus of the MTFP needs to be addressed to ensure reserves are not exhausted by 2017.</p> <p>The Council has recognised this, and has developed a "Plan for a Sustainable Future" which aims to make further savings through transformational change. This will build on the improved focus on efficiency and value for money which has been embedded over recent years.</p> <p>Part of the Council's future plans will involve closer working with neighbouring councils to share services and achieve further efficiencies.</p>	<p>●</p> <p>Amber</p>	

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Financial Governance

Key indicators of effective financial governance

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

Understanding

- There is a clear understanding of the financial environment the Council is operating within:
 - Regular reporting to Members. Reports include detail of action planning and variance analysis etc.
 - Actions have been taken to address key risk areas.
 - Officers and managers understand the financial implications of current and alternative policies, programmes and activities.

Engagement

- There is engagement with stakeholders including budget consultations.

Monitoring and review

- There are comprehensive policies and procedures in place for members, officers and budget holders which clearly outline responsibilities.
- Number of internal and external recommendations overdue for implementation.
- Committees and Cabinet regularly review performance and it is subject to appropriate levels of scrutiny.
- There are effective recovery plans in place (if required).

Financial Governance

Understanding and engagement

Area of focus	Summary observations	High level risk assessment
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Understanding the Financial Environment

Financial planning within the Council is good. The Cabinet is made aware of key financial matters with support from management, and information is made available which is timely, complete and reliable. There are clear financial instructions and standing orders to govern financial management responsibilities.



Amber

There is a clear understanding of the risks that face the Council both legal and regulatory and the Council acts promptly to make sure all such matters are addressed. As outlined earlier, there is a need to address future changes in funding and the low level of reserves.

The Council is continuing to provide Members with training to assist with their financial governance responsibilities.

Executive and Member Engagement

The Executive Director Corporate Services is a full member of the leadership team and thus provides sufficient opportunity to influence the budget setting process.



Green

For the year under review, the Executive Director Corporate Services has challenged financial assumptions made. There is also robust executive and member challenge, and external consultation and ensure that the budget setting process meets the financial reality facing the Council.

Overview for controls over key cost categories



Effective monitoring of unit costs is enabled through the budget monitoring process by departmental heads and budgets are formally assigned to managers with responsibility for them.



Green

Financial Governance

Understanding and engagement

Area of focus	Summary observations	High level risk assessment
<p>Budget reporting: revenue and capital</p>	<p>The Council's leadership team are well briefed and have an understanding of the current financial position and future implications</p> <p>In year forecasting is good, with no significant or unexpected overspends or underspends. Information is provided that is at the right level of detail to enable Cabinet to make decisions.</p> <p>Decision making is open and transparent and based on information supplied by management . Cabinet proposals made are based on relevant financial information.</p> <p>The Budget Book is regularly revised during the year with cabinet proposals used where appropriate to use monies to further strategic objectives.</p>	<p> Green</p>
<p>Adequacy of other Committee/Cabinet Reporting</p>	<p>Council are aware of the financial implications of delivering statutory responsibilities and the MTFP allows for this delivery. There is a clear investment strategy and cash is being managed appropriately. Decision-making is based on appropriate and adequate information</p> <p>There are currently adequate arrangements to monitor the achievement of efficiencies and reductions in unit costs, and the impact on service quality and provision.</p>	<p> Green</p>

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Financial Control

Key indicators of effective financial control

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

Budget setting and budget monitoring

- Budgets are robust and prepared in a timely fashion.
 - Budgets are monitored at an officer, member and Cabinet level and officers are held accountable for budgetary performance.
- Financial forecasting is well-developed and forecasts are subject to regular review.

Finance Department

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

Financial Systems




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

Internal Control

- Strength of internal control arrangements - there is an effective internal audit which has the proper profile within the organisation. Agreed Internal Audit recommendations are routinely implemented in a timely manner.
- There is an assurance framework in place which is used effectively by the Council and is how business risks are managed and controlled.
- The Annual Governance Statement gives a true reflection of the organisation.




Financial Control

Internal arrangements

Area of focus	Summary observations	High level risk assessment
<p>Budget setting and monitoring – revenue and capital</p>	<p>The Council are able to provide good in-year forecasting with no unexpected under or overspends reported. The process for budget setting is robust leading to the production of a reliable and achievable budget.</p> <p>The reporting process enables any additional savings realised in year to be identified and a scheme of Cabinet Proposals are already in place enabling available resources to be transferred to Council priorities.</p> <p>The delivery of capital programmes is not as robust as the revenue programme. To date £4.8m of capital expenditure is expected to slip into 13/14 representing 51% of the capital programme for the year</p>	<p> Amber</p>
<p>Performance against Savings Plans</p>	<p>The Council have a good track record in achieving overall savings, even though there may be slippages within individual departments. The Council is good at ensuring it has sufficient schemes in place to meet the savings target as there is often slippage. This "headroom" in the plan (i.e. extra projects already identified and worked-up so that the total programme value exceeds the total target value), reduces the risk of any potential target shortfall, or having to call further on reserves. There are robust processes in place to monitor & report on in-year progress against plan and this does adequately cover progress to date & expected outcomes by year-end, including a discussion of the relevant factors and risks. There is slippage which has been identified – There is therefore evidence that the Council is seeking to proactively managing delivery rather than just reporting on it.</p>	<p> Green</p>
<p>Key financial accounting systems</p>	<p>Through our initial review of the financial systems along with Internal Audit reviews of critical financial systems over the last year; we have no material concerns over the operation of the key financial accounting systems. Accounting systems are appropriate to the business and its current requirements, and evidence obtained to date provides for the accuracy and reliability of accounting systems</p>	<p> Green</p>


Financial Control

Internal and external assurances

Area of focus	Summary observations	High level risk assessment
Finance Department resourcing	For the 12/13 financial year, there has been sufficient skill and capability within the finance department. The S151 officer is on the leadership team and is also the Deputy Chief Executive. Finance staff remain constant with little or no turnover within key financial posts. This will ensure there is sufficient technical expertise to deal with large scale capital projects and the increased financial risks caused by the current economic climate.	 Green
Internal audit arrangements including compliance with CIPFA Code of Practice for Internal Audit	The Council's Corporate Risk Register is reviewed regularly and mapped to corporate objectives. Risks are allocated to specific individuals who are senior officers. Each risk is rated and mitigation stated. Internal Audit are compliant with the CIPFA Code of Practice for Internal Audit. Overall, we have concluded that the Internal Audit service continues to provide an independent and satisfactory service to the Council and that we can take assurance from their work in contributing to an effective internal control environment at the Council.	 Green
External audit arrangements and programme of activities	<p>The conclusions from the most recent Annual Audit Letter (October 2012) state that the Council will need to ensure the following:</p> <ul style="list-style-type: none"> • A need to keep under review the medium term financial position of the Council • Consider proposals for business rate retention • Review council tax benefit reforms. <p>The Council has addressed all areas in 2012-13. The Council however needs to continue to closely review their medium term financial position as outlined earlier in this report.</p>	 Green

Financial Control

Internal and external assurances

Area of focus	Summary observations	Assessment
<p>Assurance framework/risk management</p>	<p>The Corporate Risk Register is owned by the Corporate Management Team and is reviewed on a quarterly basis. This document contains all corporate risks. Operational risk registers are owned by managers and are linked to service business plans. The format allows Cabinet/Executive and also the audit committee to assure itself that risks are being adequately monitored & managed. All risks are mapped to corporate objectives and are allocated to a named lead at a senior level. Risks are shown at current and target levels with each risk having clear actions, an update of progress to date and a RAG rating. The Register's size & number of risks reported is pitched appropriately to allow Cabinet/Executive to keep the main risks under adequate review.</p>	<p style="text-align: center;"> Green</p>



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