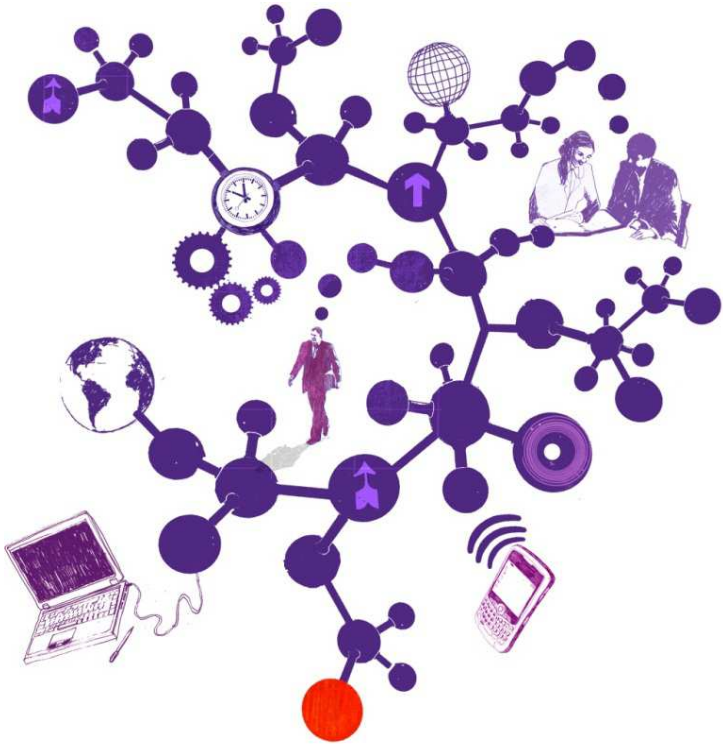
Agenda Item 6

Review of Financial Resilience Arrangements for Ribble Valley Borough Council

Year ended 31 March 2014

Report date 28 July 2014



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Introduction

Our approach

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.

We agreed to provide a report setting out the findings of this work.

Further detail on each of these areas is provided in the sections of the report that follow:

- The national and local context for local government finance is set out on page 4.
- The overall conclusions section on page 5 provides an overview of the arrangements reviewed.
- The detailed findings in each area assessed are set down on pages 6 to 13.

Overall conclusion

Our overall conclusion is that whilst the Council faced some risks and challenges for 2013-14 and beyond, its current arrangements for achieving financial resilience are adequate.

National and local context

What is this context?

Nationally

The 2010 Spending Review set the Coalition Government's financial settlement for the four years to 2014-15, and the 2013 Review then covered 2015-16. By the end of this period, central funding to local government will have reduced by 35%.

2013-14 is the third year of councils having to deliver efficiency savings in response to the 2010 Spending Review and, given the 2013 Review and the budget statement in 2014, this will need to continue for the foreseeable future. Delivering these efficiency savings and maintaining financial resilience is becoming increasingly difficult, even for top-performing councils. The challenges include:

- responding to welfare reform; and
- the drive towards more integrated health and social care.

Demand for many demography-driven council services is expected to rise, whereas demand for some income-earning services is falling.

To fulfil their statutory requirements, councils must continue to provide certain services. But the opposing trends in funding and demand will create a sizeable funding gap even if carefully managed. In short, the sector is working through its greatest financial challenge of recent times.

Locally

Ribble Valley is a local government district with borough status within the county of Lancashire, England. Its council is based in Clitheroe. Other places include Whalley, Longridge and Ribchester. The area is so called due to the River Ribble which flows in its final stages towards its estuary near Preston. The area is popular with tourists who enjoy the area's natural unspoilt beauty, much of which lies within the Forest of Bowland. The district was formed on 1 April 1974 under the Local Government Act 1972, as a merger of the municipal boroughs.

Unemployment in the area is low compared to the national and regional averages whilst earnings are above the national average. Ribble Valley is a rural area and tourism and agriculture play an important role in the local economy. The estimated total spent by tourists in Ribble Valley each year is in excess of £19.5 million. and there are around 2,500 jobs in tourism-related businesses. Manufacturing accounts for around 26% of employment within the borough.

The IMD 2010 provides measures of deprivation at local authority level, ranking the deprivation of 354 local authority districts in England, where 1 is the most deprived and 354 is the least deprived. The average score over a number of indicators for Ribble Valley is 290.

Like all local authorities, the Council has had to respond to the large reductions in its core funding from central government whilst maintaining services at a good level. In this context, it is important that the Council has sound arrangements in place to secure value for money.

Overall conclusions

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

Green	Adequate arrangements appear to be in place
Amber	Adequate arrangements, with areas for development
Red	Inadequate arrangements

Overview of arrangements

Risk area	Summary observations	High level risk assessment
Key Indicators of Financial Performance (pages 6 + 7)	• In 2013-14 the Council maintained expenditure within both the revenue budget and capital programme set. • The level of available reserves provides adequate cover for known future financial risks. • There is adequate cover for liabilities and borrowings. • The Council has a stable workforce. It has had historically low sickness absence levels. These did increase in 2013-14 due to a number of one-off long-term sickness cases. There are less such cases in 2014-15 so far.	Green
Strategic Financial Planning (pages 8 + 9)	• The Council put effective plans in place to cover its budget gap in 2013-14 and 2014-15. • The Council's revenue budget and capital programme are underpinned by a three year medium term financial plan (MTFP). The MTFP is based on sound planning assumptions and includes realistic scenario planning and a risk assessment for future years. • The Council uses the MTFP as a starting point for budget planning for future years.	Green
Financial Governance (pages 10 + 11)	• The Council has a Budget Working Group (BWG) which drives initial budget proposals for review by service committees, Policy and Finance Committee and approval by full Council. • Regular reports to monitor performance against the revenue budget and capital budget are made to the service committees, BWG and Policy and Finance Committee. • There is an appropriate level of senior management and member level engagement in the financial management process.	Green
Financial Control (pages 12 + 13)	• The Council has a well established budget setting process and a good track record in managing budgets and achieving savings targets. In 2013-14 the Council maintained expenditure within both the revenue budget and capital programme set. • The Council has well established systems and procedures for producing reliable financial monitoring and forecasting information.	Green

Key Indicators of Financial Performance

Area of focus	Summary observations	RAG-Rating
Liquidity	• The Council has a prudent approach to liquidity. The working capital ratio is just below the average when compared to its nearest neighbours with a ratio in 2012-13 of 2.9 compared to an average of 3.9 for the group. In 2013-14 this ratio has increased to 3.1. This demonstrates a prudent but not overly cautious approach to working capital. The working capital ratio indicates if an authority has enough current assets, or resources, to cover its immediate liabilities. It should be noted that a high working capital ratio is not always a good thing; it could indicate that an authority is not effectively investing its excess cash. • There has been no need to rely on short-term fixes to retain liquidity or cash holdings. • The Council has low levels of borrowings and investments, so has less exposure to interest rate fluctuations. Nevertheless, the Council does monitor interest rate fluctuations. • Collection rate levels for council tax and NNDR are good.	Green
Borrowing	• The Council is in a sound position with long term debt a proportionally small amount of tax revenues and assets. The Council's long term borrowing to tax ratio is below average when compared to its nearest neighbours, its ratio in 2012-13 being 0.05 compared to an average of 1.98. The Council's 2013-14 ratio is 0.04. The Council's long term borrowing to assets ratio is also below average when compared to its nearest neighbours, its ratio in 2012-13 being 0.02 compared to an average of 0.17. The Council's 2013-14 ratio is 0.01. • The decrease over recent years shows a prudent approach in reducing exposure to long term borrowing. • The Council met it's prudential indicator targets for 2013-14.	Green
Workforce	• The Council's sickness absence rate was 6.9 days per FTE in 2012-13. This compares favourably with the Local Government (8.8) and wider public sector averages (8.7). It is in-line with the private sector average of 7.2. However, in 2013-14 sickness absence has increased to 9.85 days per FTE. This is due to a number of one-off long-term sickness cases in 2013-14. These cases are now all resolved as a result of the Council's active management of cases and robust processes and controls for identifying the need for intervention. • There are fewer long-term cases in 2014/15 (to date) and the Council has a target to reduce sickness absence levels to the 2012-13 level by 2015-16. • Senior Council staff are experienced and knowledgeable in managing sickness absence.	Green

Key Indicators of Financial Performance

Area of focus	Summary observations	RAG-Rating
Performance against budgets (Revenue and Capital)	• The Council has a very good track record of meeting its budget and achieving savings. • In 2013-14 the Council achieved an overall under-spend of £258k against the revised revenue budget set, after allowing for transfers to and from earmarked reserves. This underspend arose across a number of service areas. • In 2013-14 the capital budget was underspent by £127k against the revised estimate. Some of this underspend has been re-profiled into 2014-15. • The Council did not have to use any short-term fixes to fund in-year expenditure.	Green
Reserves balances	• The Council maintains an appropriate level of usable reserves, comprising the General Fund balance and earmarked reserves, which are set aside for specific purposes. • The Council's useable reserves as a share of expenditure ratio in 2012-13 was 0.28, compared to its nearest neighbours average of 0.29. The Council's ratio in 2013-14 was 0.35. • CIPFA's guidance on the level of the General Fund balance is that the level should reflect the S151 officer's advice to the Council, which should be based on local circumstances. As at 31 March 2014 the Council had a General Fund balance of £2.1m. This is above the S151 officer's recommended minimum level of £700k.	Green

Strategic Financial Planning

Area of focus	Summary observations	RAG-Rating
Focus of the MTFP	• The Council's medium term financial plan (MTFP) for the period 2013-14 to 2015-16 was set in February 2013. A further MTFP for 2014-15 to 2016-17 was agreed in February 2014. • The MTFP produced for 2013-14 followed the major review of council services, carried out by Heads of Services and the Corporate Management Team (CMT) in Summer 2011 and subsequently approved by members. The review proposed recurrent savings of £635k, in addition to £108k recurrent savings achieved from a review of senior management in 2010-11. The savings were monitored closely throughout 2012-13 and were achieved. • The MTFP in place from 2013-14 builds on these service reviews by focusing on maintaining services at a good level, and ensuring the Council delivers its statutory responsibilities within the reducing central funding envelope. • The MTFP has a long-term focus. It includes realistic scenario planning and a risk assessment.	Green

Adequacy of planning assumptions	• The Council has set out its expected expenditure and revenue for the years 2014-15 to 2016-17 in the February 2014 MTFP. It also includes a number of sensible assumptions including:
	    • Anticipated external funding for 2014-15 and, where known, the levels this will be at going forward
	    • A council tax increase of 2.5% from 2016-17 onwards.
	    • Income levels from fees and charges and the localisation of business rates.
	    • Assumes use of General Fund balances of £150,000 p.a. from 2014-15 onwards. This will still leave the level of General Fund balances well above the S151 officer's recommended minimum level of £700,000 by March 2017.
	• Gong forward there is a focus on making good use of funding sources such as New Homes Bonus and on controlling expenditure in-year. The intention is to set aside funds as earmarked reserves to meet future cost pressures. This was a successful strategy in covering the yearly budget gap for both 2013-14 and 2014-15 and maintaining Council service provision at a good level.
	• There remains significant uncertainty about the financial position for 2015-16 onwards. The MTFP sets out the indicative budget gap of £576k for 2015-16 and £957k for 2016-17. As yet, it does not set out plans to meet the budget gaps, but provides the basis for the Council's work as part of the annual budget planning process. The Budget Working Group (BWG) will assess options for closing the 2015-16 budget gap between July and November 2014. Options will include assessing current budgets and use of New Homes Bonus funding.
		Green

Strategic Financial Planning

Area of focus	Summary observations	RAG-Rating
Scope of the MTFP and links to Annual Planning	• The MTFP reflects the Council's Strategy and the vision, core values and priorities within that. • It covers the full scope of the Council's service provision, including both revenue and capital plans. • There is a clear link to the annual budget setting process which, once complete, then informs the next review of the MTFP.	Green
Review processes	• Monitoring of progress against the MTFP is undertaken through the year by the Budget Working Group. • The MTFP is formally reviewed and updated during each year's budget planning round. • A formal report reviewing the MTFP at the six month stage is normally presented to Policy and Finance Committee in September.	Green
Responsiveness of the plan	• The Council reviewed and updated the MTFP during the 2014-15 financial planning cycle. • Future years funding will be reviewed during the lifetime of the plan and this process has already commenced for 2015-16. • The Council will need to ensure the plan remains responsive, especially given the scale of the budget gap in 2015-16 and 2016-17. The Council must ensure its current approach to financial planning remains appropriate to deal with the increasing and emerging financial pressures in local government.	Green

Financial Governance

Area of focus	Summary observations	RAG-Rating
Understanding of the financial environment	• Senior officers understand the financial management challenges facing the Council and are taking appropriate action to secure a stable financial position for the medium to long-term. • The leadership team has considered key factors as part of the budget and MTFP planning, such as the need to deliver the Council's statutory requirements, key income sources and how they will change over time, and any legal issues. • Risk assessment and sensitivity analysis are a key part of the MTFP, yearly budgets and in-year monitoring.	Green
Executive & member engagement	• There is an appropriate level of senior management and member level engagement in the financial management process. • The Director of Resources is part of the leadership team and is included in the decision making of the Council. • Members of the Policy and Finance Committee are appropriately engaged and challenging of officers. • The Accounts and Audit Committee provides a robust challenge to officers in relation to the financial matters within its remit. • The Council makes good use of its website to communicate financial issues to stakeholders. The MTFP, yearly budgets and in-year budget monitoring reports are available on the website. The explanatory foreword to the Statement of Accounts clearly sets out the position from the last year and the challenges going forward for the Council.	Green
Overview for controls over key cost categories	• Senior officers and councillors have an overview of the key cost areas of the Council and the yearly and longer term financial pressures facing the Council. The MTFP and yearly budgets are developed by the Budget Working Group, which includes senior officers and councillors. Regular monitoring reports are reported to all Committees. • Actual expenditure has been kept within the budget set for the Council in 2012-13 and 2013-14.	Green

Financial Governance

Area of focus	Summary observations	RAG-Rating
Budget reporting (Revenue & Capital)	• Revenue and capital monitoring reports are presented to service committees and Policy and Finance Committee throughout the year. • The reports to members are comprehensive and clearly set out. The Director of Resources presents the reports and provides any further explanation on key issues to members. • This means members are kept up to date with progress against budget and savings, any emerging issues or pressures, and the actions being taken to address them. • In 2013-14 the Council achieved a revenue under-spend of £258k against the revised budget set, after allowing for transfers to and from earmarked reserves. This underspend was spread across a number of areas, but was significantly higher than expected at revised budget stage. The Director of Resources is now using the level of underspend to inform and challenge the base budgets set for some areas to support the identification of the savings needed for 2015-16 onwards, for example in refuse vehicle maintenance. The BWG has already put plans in place to further assess budget levels in some areas, as a possible option for covering the 2015-16 budget gap. • In 2013-14 the Capital budget was underspent by £127k against the revised estimate. Some of this underspend has been re-profiled into 2014-15.	Green
Adequacy of other committee reporting	• The MTFP and the yearly revenue and capital budgets are reported to the Policy and Finance Committee and the Full Council. This ensure that members are aware of the short and long-term financial position, plans to meet the Council's statutory requirements and any risks. • The Policy and Finance Committee receives a wide range of financial information in order to give a rounded view of Council finances including revenue and capital budget monitoring reports, Treasury Management reports, Revenues and Benefits reports, and economic development updates. • Individual committees also receive budget and capital monitoring reports in respect of their services. • The reports to members are comprehensive and clearly set out.	Green

Financial Control

Area of focus	Summary observations	RAG-Rating
Budget setting & monitoring – (revenue & capital)	• The Council has a well established budget setting process that encourages ownership by budget holders. • The Budget Working Group (BWG), including senior officers and councillors, makes recommendations to committees and the Full Council for the revenue and capital budgets. • The budget is informed by the MTFP, with minimal use of General Fund reserves, offset by planning to allocate funds to earmarked reserves to future-proof the Council against future funding cuts. Within the MTFP there is also some sensitivity analysis and consideration of the budget risks for the next 3 to 4 years. This ensures a longer-term focus on financial risk to avoid short-term budget fixes only. • The Council has a good track record in managing revenue and capital budgets and achieves its budgets each year. • The Policy and Finance Committee and each individual committee receive in-year revenue and capital monitoring reports in respect of their services. • The reports to members are comprehensive and clearly set out.	Green
Performance against savings plans	• The Council has a good record of delivering savings and balancing the budget. £635k of recurrent savings were achieved in 2012-13, following the major service review. In 2013-14 the Council made good use of funding sources such as New Homes Bonus and controlling expenditure in-year, to set aside funds into earmarked reserves where future cost pressures have been identified. • The Council did not use short-term fixes to fund in-year expenditure.	Green
Key financial accounting systems	• The Council has well established systems and procedures for producing reliable financial monitoring and forecasting information. • The process has enabled the Council to identify and manage financial risks in a timely way.	Green

Financial Control

Area of focus	Summary observations	RAG-Rating
Finance department resourcing	• The Finance department is resourced at an appropriate level for a council of this size. • The Director of Resources and Head of Financial Services are both CIPFA qualified and have the appropriate experience required for their roles. • Staff in the Finance Department are suitably qualified and experienced to provide support to service managers on financial issues.	Green
Adequacy of Internal audit arrangements	• The Council has adequate arrangements in place. • The service is provided in house by a small team of dedicated audit staff. • Internal Audit receives good feedback from managers in the service areas they audit.	Green

External audit conclusions	• The key messages from the most recent Annual Audit Letter noted:
	    • An unqualified opinion on the Authority's 2012-13 financial statements was given.
	    • The Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources.
	• The Council responds well to any recommendations raised.
		Green

Assurance framework/risk management processes	• Within the MTFP, there is some sensitivity analysis and consideration of the risks in the MTFP for the next 3 to 4 years. This ensures a longer-term focus on financial risk to avoid short-term fixes only. • On a wider footing, the Council has robust risk management arrangements in place. • There is a comprehensive departmental level risk register which Heads of Service are responsible for updating with new or emerging risks and CMT use their knowledge to review the risk register on a regular basis to ensure risks are being reviewed, managed and updated as appropriate. • 'Red' risks are reported at each Accounts and Audit Committee. • There is scope to improve the reporting to members on the risks facing the Council by ensuring members regularly receive a summary "Corporate Risk Register" containing details of the highest level strategic risks for them to scrutinise and consider given the potential impact on the Council achieving its overall strategic objectives.	Green

Appendix 1 – Benchmarking charts

About the charts

We have made use of the Audit Commission's Financial Ratios Analysis Tool to benchmark the Council against its statistical nearest neighbours for relevant KPIs up to and including 2012-13. This section of the report includes analysis of key indicators of financial performance, benchmarked where this data is available.

The indicators used are:

- Working capital ratio
- Long term borrowing to tax revenue
- Long term borrowing to long term assets
- Useable Reserves: Gross Revenue Expenditure

We have also made use of published material on rates of sickness absence.

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

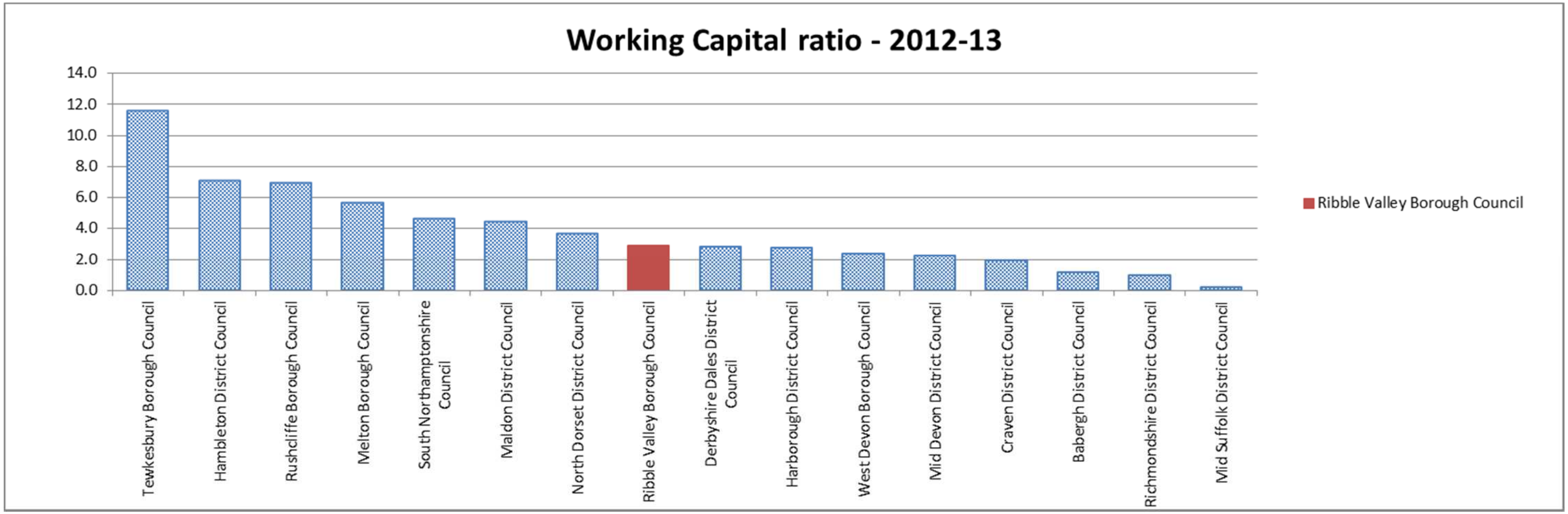
- Rushcliffe Borough Council
- Tewkesbury Borough Council
- Melton Borough Council
- Hambleton District Council
- Harborough District Council
- Maldon District Council
- South Northamptonshire Council
- Derbyshire Dales District Council
- Craven District Council
- West Devon District Council
- North Dorset District Council
- Mid Devon District Council
- Richmondshire District Council
- Barbergh District Council
- Mid Suffolk District Council

Key Indicators of Financial Performance

Working Capital Ratio - 2012/2013

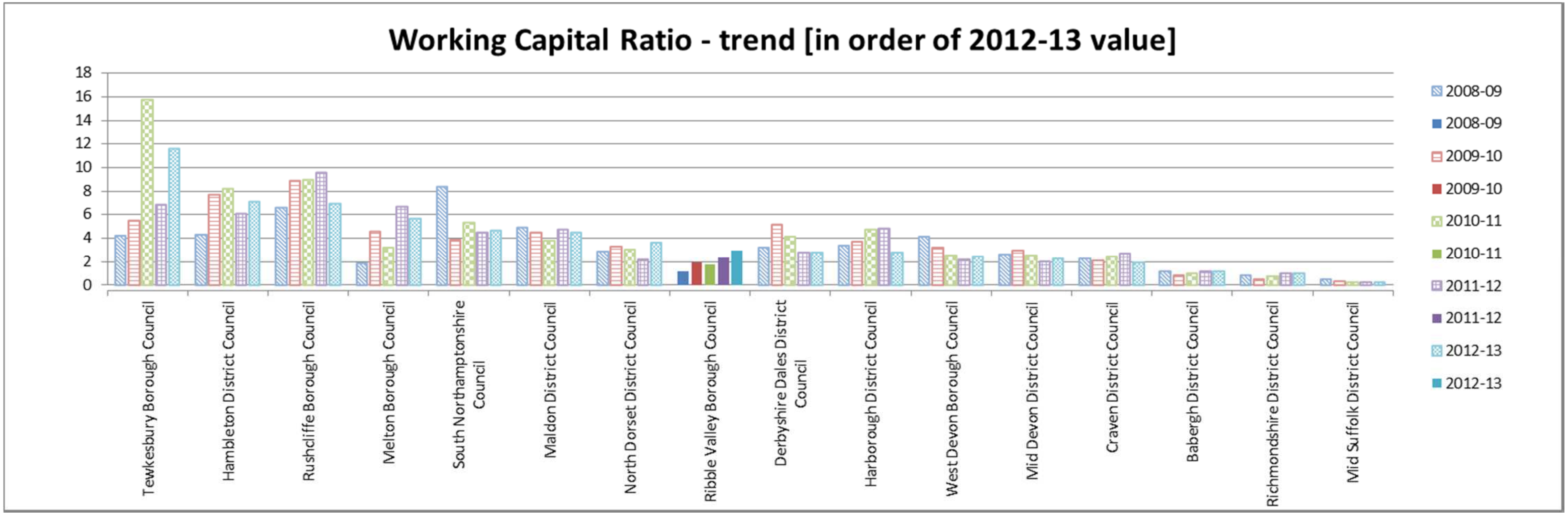
Definition The working capital ratio indicates if an authority has enough current assets, or resources, to cover its immediate liabilities – i.e. those liabilities to be met over the next twelve month period. It should be noted that a high working capital ratio is not always a good thing; it could indicate that an authority is not effectively investing its excess cash.

Findings The Council's working capital ratio is just below the average when compared to its nearest neighbours, its ratio in 2012-13 being 2.9 compared to an average of 3.9. This demonstrates a prudent but not overly cautious approach to working capital management.



Working Capital Ratio – Trend

Findings There is a mixed picture in terms of the movement in working capital ratios across the nearest neighbours. The Council has seen an increase in the period 2008-09 to 2012-13.

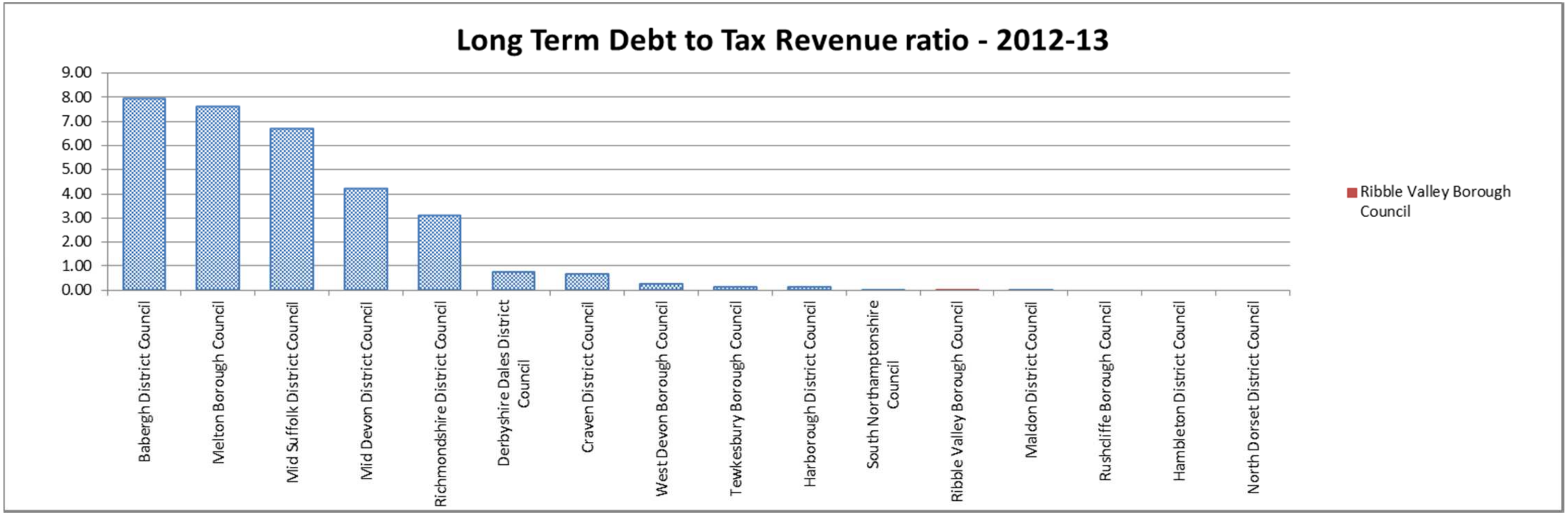


Key Indicators of Financial Performance

Long Term Debt to Tax Ratio - 2012/2013

Definition This shows long term borrowing as a share of tax revenue. A ratio of more than one means that long term borrowing exceeds council tax revenue.

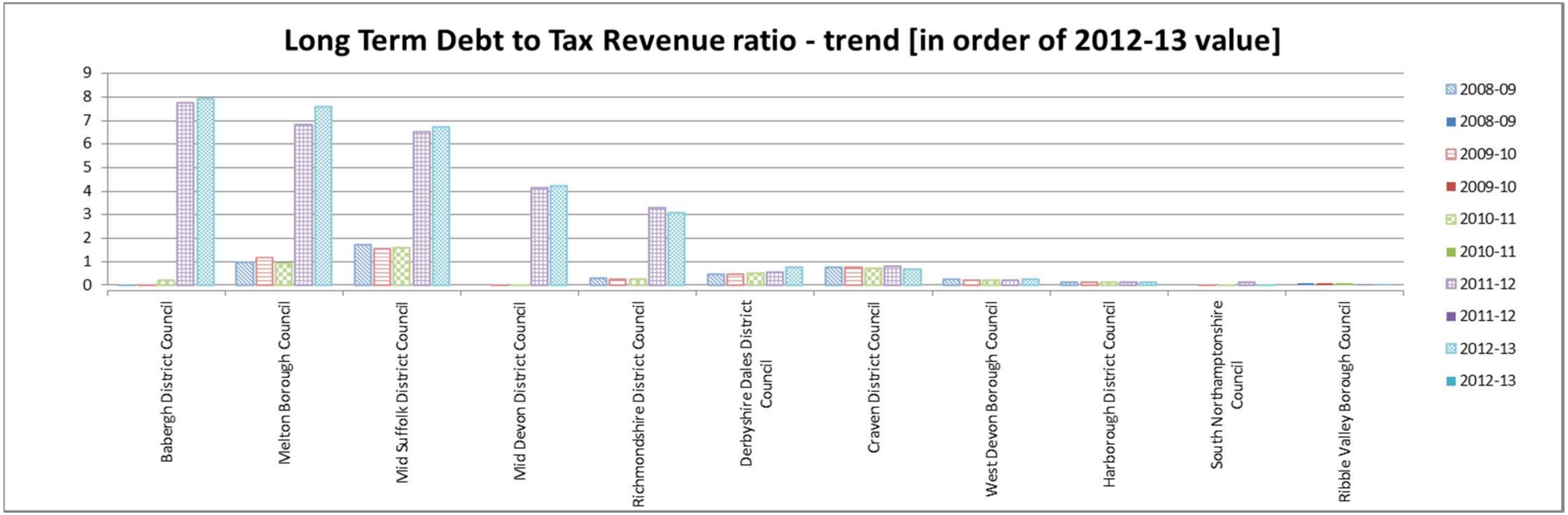
Findings The Council's long term borrowing (as a percentage of tax revenue) is 0.05 which is at the lower end of the comparator group.



Key Indicators of Financial Performance

Long Term Debt to Tax – Trend

Findings The Council's long term borrowing to tax ratio has decreased from 0.08 in 2008-09 to 0.05 in 2012-13. This downward trend is different from the majority of the benchmarked group who have increased their ratios over this period. The Council is in a sound position with long term debt a proportionally small amount compared to tax revenues.

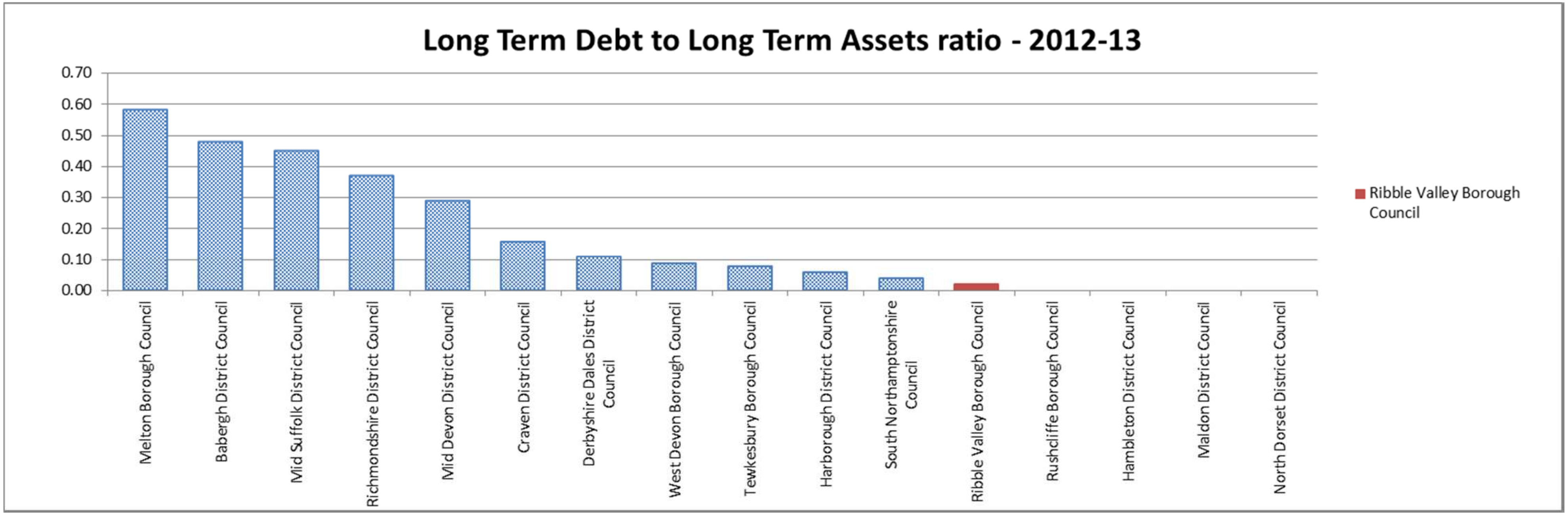


Key Indicators of Financial Performance

Long Term Debt to Long Term Assets - 2012/2013

Definition This ratio shows long term borrowing as a share of long term assets. A ratio of more than one means that long term borrowing exceeds the value of long term assets.

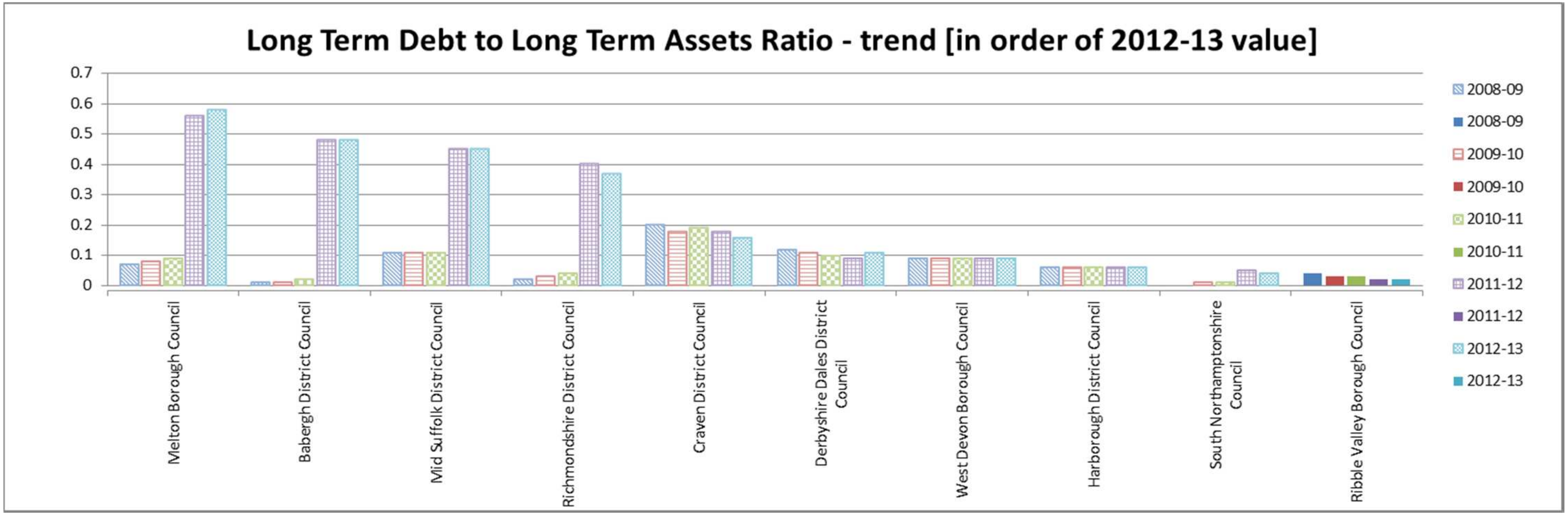
Findings The Council's long term borrowing to assets ratio is 0.02.



Key Indicators of Financial Performance

Long Term Debt to Long Term Assets – Trend

Findings The Council's long term borrowing to assets ratio has decreased from 0.04 in 2008-09 to 0.02 in 2012-13. There is no clear overall trend across the benchmarked group as around half the councils have increased their ratio and half decreased.

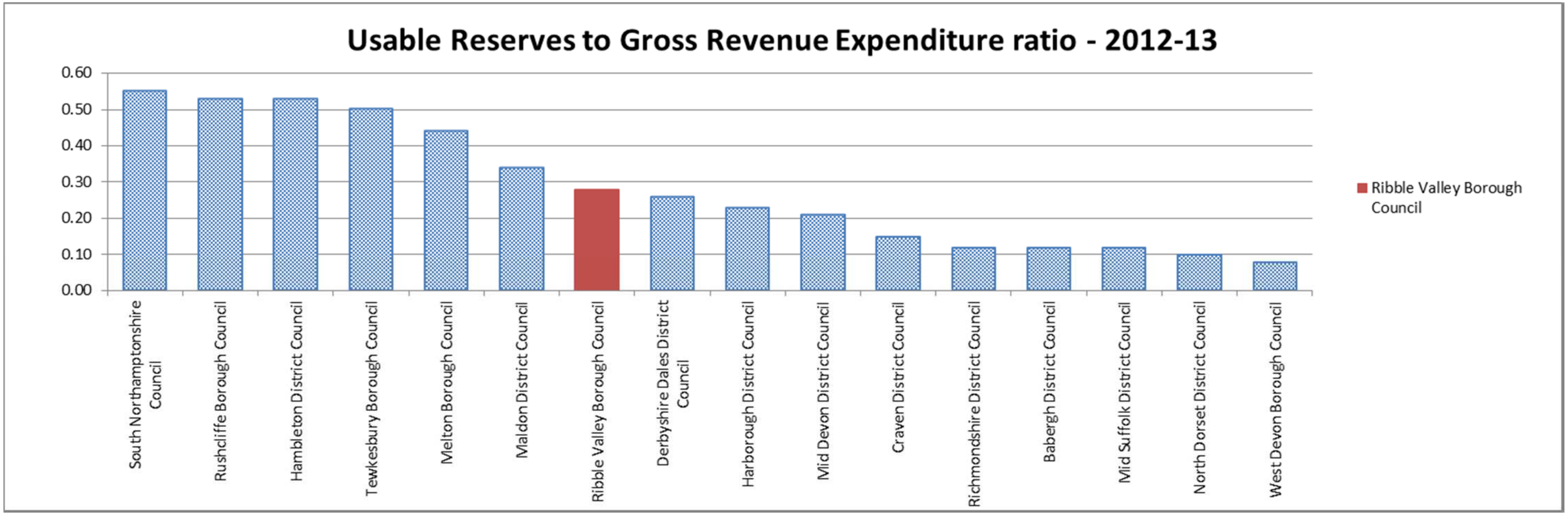


Key Indicators of Financial Performance

Usable Reserves to Gross Revenue Expenditure - 2012/2013

Definition This shows useable capital and revenue reserves as a share of expenditure. A ratio of one means the total reserves matches the level of expenditure.

Findings The Council's useable reserves as a share of expenditure ratio was 0.28. This is around the average ratio of the benchmarked group (0.29).



Key Indicators of Financial Performance

Usable Reserves to Gross Revenue Expenditure – Trend

Findings Between 2009-10 and 2012-13 the Council increased the value of its useable reserves as a share of expenditure from 0.18 to 0.28. There is no clear trend in the nearest neighbours with some authorities increasing their reserves (as a share of expenditure) and others decreasing their reserve levels.

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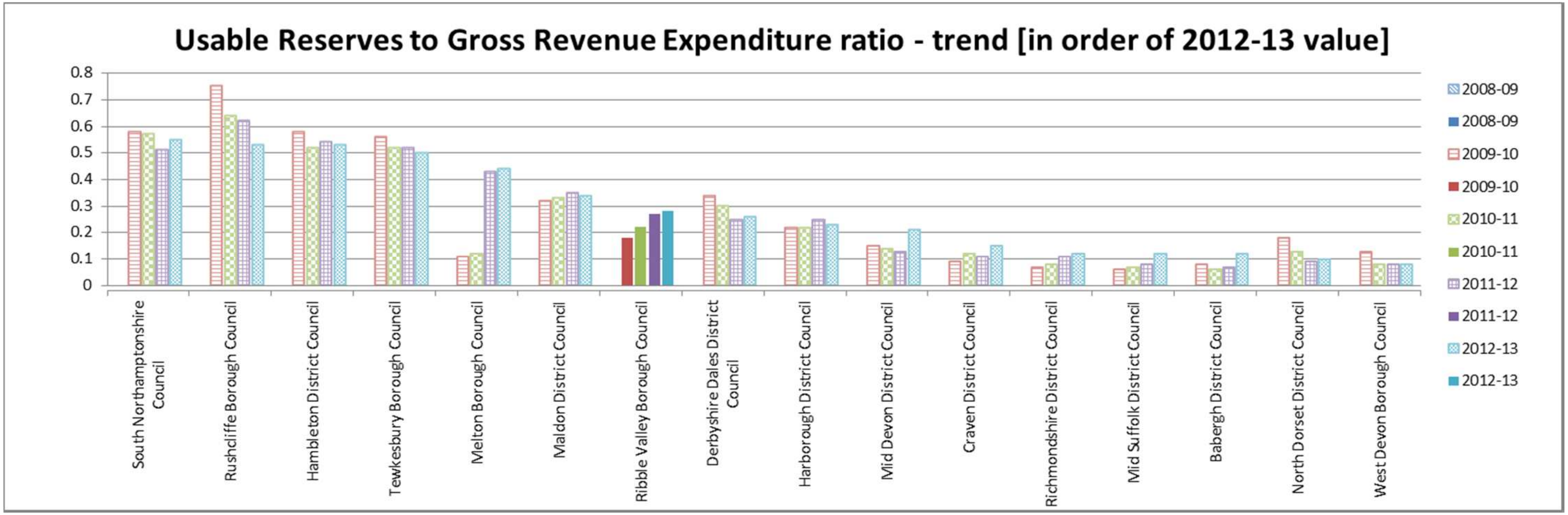

Key Indicators of Financial Performance

Sickness absence

Finding The Council's sickness absence rate was 6.9 days per FTE in 2012/13. The Council's sickness absence figures compare well against figures for the public sector (8.7 in 2012-13) and local government (8.8 in 2012-13) and are in line with the private sector (7.2 in 2012-13). The absence rate has been consistent between 2008-09.

It should be noted that the 2013-14 sickness absence rate has increased to 9.85 days per FTE. This is due to a number of one-off long-term sickness cases in 2013-14, which had not been the case in previous years. These cases are now all resolved. In addition, the Council did operate the same processes and controls for dealing with sickness absence in 2013-14 as in previous years. There are less long-term cases in 2014/15 so far and the Council has set a target to reduce sickness absence levels to the 2012-13 level by 2015/16.