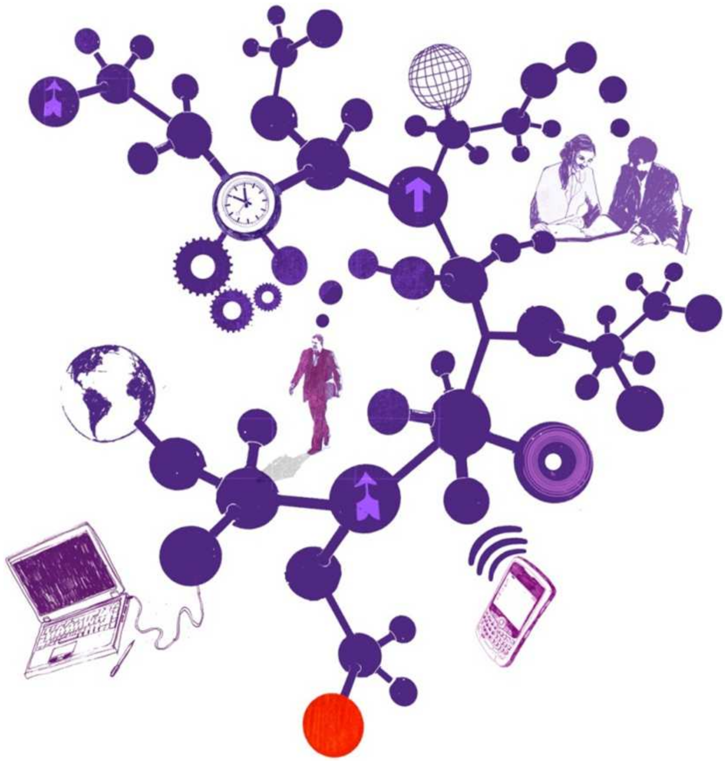
Review of the Council's Arrangements for Securing Financial Resilience for Thanet District Council

Year ended 31 March 2013

9 September 2013



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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. Our overall conclusion is that the Council has put sound arrangements in place and adequately approached financial planning, governance and control. The primary scope of our work was the delivery of budgets during 2012/13, the financial planning for 2013/14 and the medium term plan. This report needs to be read in the context that 2012/13 is the second year of the four-year Government spending review period, where some of the potential risks and challenges over the medium term may have yet to materialise.

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

Thanet District Council has a population estimated at 132,300 and is the fourth most populated district in Kent. Most of the population live on the coast that links the towns of Ramsgate, Broadstairs ad Margate. Thanet is ranked as the 49th most deprived district out of 326 authorities in England. There is increasing pressure from higher demand on services, including specialist services.

Over recent years, the Council has worked hard to improve its performance and reputation. It has focused on maintaining service levels despite reduced funding. It has achieved this primarily by internal restructuring and developing new ways of working, including shared service delivery with other East Kent authorities.

In common with all other public sector bodies, Thanet DC is facing a significant financial challenge to deliver its current level of services, with reducing funding and increased pressure on services. The Council has identified a budget gap of £11 million from 2014/15 – 2017/18. The Council is looking at various options to address this including a fundamental service review programme.

The Chancellor's Autumn Statement announced a further reduction of 2% for local government in 2014/15. This, added to previous announcements, is likely to mean a reduction of 14.5% in government funding for Thanet DC. This equates to £1.522m. The Council's current approach for setting the budget is to protect its key priority services, such as Street Cleansing, Refuse Collection and Recycling; and Community Safety and Crime Reduction from budget reductions that will threaten service delivery.

Executive Summary

Overview of Arrangements

Risk area	Summary observations	High level risk assessment
Key Indicators of Performance	We have reviewed five key indicators of performance using published financial ratios from the Audit Commission and benchmarking against the Council's nearest neighbour group. The review considered liquidity, borrowing, workforce, performance against budgets and reserve balances. • The ratio analysis has shown an improving position over the past few years for workforce, performance against budget and reserves. • At 2.33 in 2012/13, the Council's liquidity ratio is above the acceptable level of current assets to liabilities at 2:1. • Although the Council's usable reserves are lower than average, the levels are in line with the medium term financial strategy. • The Council is in line with its comparators in terms of the levels of long term borrowing compared to long term assets • The Council's sickness absence rate has increased to over 12 days in 2012/13, significantly average for the public sector.	Amber
Strategic Financial Planning	The Council has demonstrated good strategic financial planning. Its key challenge is developing a medium term plan in the context of significant change and uncertainty. • The Council's Medium Term Financial Plan (MTFP) is set for the period 2014/15 to 2017/18 and takes account of local priorities and service plans. There are strong links between the Council's MTFP and key priorities. • The latest MTFP covers the period from 2014/15 to 2017/18 and reflects the latest cuts announced in the recent Spending Review. This now shows a budget gap of £11m over 4 years. Various options are being worked up to meet the gap. • The Council must deliver challenging savings through recurrent rather than non-recurrent savings. It is using service reviews to identify transformational change.	Amber
Financial Governance	The Council has sound financial governance arrangements in place • There is a robust process for setting the budget and identifying significant savings for the past two years. • Cabinet members are engaged and have an understanding of the financial environment the Council operates in. Training is provided for members of the Governance & Audit Committee to ensure they understand the financial accounting environment before approving the financial statements.	Green
Financial Control	The Council continues to operate a well controlled financial framework: • The in-year forecasting is closely monitored by directorate managers and the Senior Management Team. • The key financial systems are sound • Finance have made significant improvements in their closedown arrangements in 2012/13, although capacity remains tight.	Green

Executive Summary

Next Steps

Area of review	Key points for consideration	Responsibility	Timescale	Management response
Key Indicators of Performance	The level of borrowing should continue to be monitored carefully to ensure continued affordability. Senior Management Team must ensure a robust approach to sickness absence monitoring.	Management have confirmed that they will provide a full response to this report for the December Governance and Audit Committee.		
Strategic Financial Planning	The Council should continue to implement its service review programme to identify areas of transformational change required to address increasing financial pressures. The Council should revisit whether this dual role remains appropriate, given the strategic demands upon the Chief Executives			
Financial Governance	The Council should improve awareness and understanding of key unit costs to aid decision making.			
Financial Control	The Council should continue to monitor the capacity of its finance team in ensuring appropriate levels to deliver finance control.			

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 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:

Weymouth and Portland Borough Council
Lancaster City Council
Shepway District Council
Adur District Council
Mansfield District Council
Barrow-in-Furness BC
Great Yarmouth Borough Council
Tendring District Council
Eastbourne Borough Council
Waveney District Council
Hastings Borough Council
Dover District Council
Scarborough Borough Council
Gravesham Borough Council
Swale Borough Council

Key Indicators

Area of focus	Summary observations	Assessment
Liquidity	• The working capital ratio indicates whether a council has enough current assets to cover its immediate liabilities. Thanet's working capital ratio has been relatively stable since 2009/10 increasing to 2.33 in 2012/13. Comparative information on liquidity from the Council's statistical nearest neighbours shows its performance is within the 'norm'. • There are likely to be significant future pressures on the council's working capital as it faces a reduction in its income from central government as well as additional revenue obligations arising from its capital programme and additional planned borrowing. This will require careful budgeting to ensure that a healthy cash flow is maintained.	Green
Borrowing	• The Council's Governance and Audit committee receive quarterly treasury management updates and the annual review is reported to Cabinet. • The council's debt levels are similar to the majority of the comparator group. However, despite not having to take on any additional debt for HRA refinancing, the value of Thanet's existing debt is equivalent to more than 100% of its income from taxation. Given that this resource is continuing to decrease, it is important that the council has a plan in place for ensuring that this debt can be repaid without affecting its service provision.	Amber
Workforce	• Thanet DC's sickness absence levels significantly increased from a historic level of around 8 days to 11.18 days in 2011/12. This further increased to 12.09 days in 2012/13, significantly above the average for all sectors. It will be important for Senior Management Team to maintain a robust approach to sickness absence monitoring for the recent trend to improve. • The Council has recognised the issue and has in established monthly workforce meeting to monitor sickness statistics.	Amber
Performance against budgets.	• The Council has a good track record in managing its budget.. The shared service has been successful at generating savings for the council. Vacant post savings continue to contribute to the underspend in the operational services budget and cost savings were also achieved on council properties. Corporate services & transformation has made significant savings in both years.	Green
Reserve Balances	• The Council has faced significant financial challenges in year including the need to manage the constraints of public sector austerity, as well as to provide specifically for the Transeuropa debt of £3.3m. The Council has imposed a moratorium on spend and has reviewed and reallocated money from other earmarked reserves, where appropriate. • The Council has maintained an overall level of reserves which is consistent with the its Medium Term Financial Strategy, and this reflects good management of finances over a number of years, as well as a willingness to take difficult decisions. However, balances and reserves are slightly lower than the comparison neighbour group average.	Amber

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	• The Council has developed a Medium Term Financial Plan (MTFP) for 2014/15 to 2017/18. This was approved by the Council alongside the revenue and capital budgets for 2013/14 in February 2013. Several versions of the MTFP have been modelled since that taken to Council. The latest MTFP covers the period from 2014/15 to 2017/18 and reflects the latest cuts announced in the recent Spending Review. This now shows a budget gap of £11m over these 4 years. Various options are being worked up to meet the gap in 2014/15. • A service review programme has been established to look at alternative service delivery methods with expected savings of £3m over the next four years. The Council will develop its future budget plans to protect its key priority services, such as Street Cleansing, Refuse Collection and Recycling; and Community Safety and Crime Reduction. • The MTFS is well linked to the Corporate plan which sets out the vision for the area.	Amber
Adequacy of planning assumptions	• The assumptions around the national budget announcements and pressures are built into the updated MTFP, with the Council providing a clear assessment of its impact. • Arrangements for effective future financial planning are sound. The Council's MTFS is supported by clear and reasonable budget assumptions and savings programme. The Council remains prudent in its spending plans and recognises that savings will be more difficult to achieve in the future without cutting services. • a recent benchmarking exercise has been undertaken using CIPFA's VFM benchmarking toolkit. This includes service performance indicators and a comparison of costs. The data will be used to support the service review programme and to ensure priority is given to those services that are showing high costs but poor performance. Benchmarking is also undertaken as part of the annual review of fees and charges to ensure fees are comparable with neighbours.	Green

Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
Scope of the MTFP and links to annual planning	• The MTFS and the annual budget report provide clear links with the corporate plan and other plans including the HRA business plan, Capital and Asset Management Strategy and Procurement Strategy. • Services have been broken down into statutory, discretionary and support services and cuts will be focussed on discretionary and those services seen by members as being low priority. • Individual meetings are held with service managers to discuss their budgets • Consultation with residents has been undertaken including budget roadshows to encourage a wide response. The budget consultation has identified clean streets and community safety as being key priorities for local residents and these areas are protected from cuts wherever possible.	Green
Review processes	• The MTFP is reviewed and updated as part of the annual planning cycle. It recognises the high level of uncertainty with finance settlements of 2 years only. • The Council reviews its financial performance regularly with quarterly Senior Management Team Performance Board sessions for all managers which include a detailed presentation on the council's financial position, the financial implication of the council's key projects and the key financial risks facing the organisation.	Green
Responsiveness of the Plan	• The Council agreed its MTFS and annual budget in February 2013. Several versions of the MTFP have been modelled since that taken to Council in February. The latest MTFP reflects the latest cuts announced in the recent Spending Review. This now shows a budget gap of £11m over these 4 years. Various options are being worked up to meet the gap in 14/15 and a meeting with SMT is planned in September to discuss the options moving forward. • There remains significant uncertainty about the financial position for 2014/15 and beyond. The Council has a good track recording of delivering its annual budgets and savings plans which gives confidence that the business planning process is resilient enough to ensure that good outcomes can be maintained despite major spending reductions. • The Council undertakes scenario planning for its major areas of spend and uses this to inform decision making. Members and officers have a clear understanding and awareness of the challenges the Council faces and that new ways of working need to be developed. • Weekly policy updates are given to SMT so they are aware of emerging changes that could impact on the council's finances. Further work is then undertaken e.g. modelling has been done around the impact of Welfare Reforms.	Green

Financial Governance

Key characteristics of effective financial governance

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

Understanding

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

Engagement

- There is engagement with stakeholders including budget consultations.

Monitoring and review

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

Financial Governance

Understanding and engagement

Area of focus	Summary observations	Assessment
Understanding the Financial Environment	• The Senior Management Team has a sound understanding of the financial environment that the Council operates within. The introduction to the annual budget and MTFP sets out the national and local pressures. The Council is aware of the main risks that it faces and has set these out in the MTFP. • The Cabinet receives regular revenue and capital budget monitoring reports which include detailed variance analysis and explanations. It also received regular performance reports on the Council's key activity indicators which gives decision makers the relevant information to make informed decisions. • Financial awareness training is provided to budget holders and a training session is provided to members of the Governance and Audit Committee to ensure that members are aware of the financial environment and accounting framework before approving the financial statements. • The Council has approved and communicated to staff and members the financial instructions and standing orders in which the Council operates.	Green
Executive and Member Engagement	• There is strong member and corporate director engagement on financial matters through the Corporate Board, supported by the fact that the Chief Executive is also the s151 officer. • Members are aware of the need for greater savings in future years, and that services will need to be provided differently if the Council is to meet the demand against the increasing pressures. • There is a good level of internal and external engagement in the budget setting process. • The Governance and Audit Committee meet throughout the year and have clear terms of reference for their responsibilities in ensuring the financial governance of the Council.	Green
Overview for controls over key cost categories	• The Council monitors and reports the revenue budget on a directorates basis. The Council has been going through a restructure and changed its directorate structure in the financial year. The resource allocations note in the 2012/13 financial statements has been prepared on the portfolio basis. • The Council's management accountants have been looking at unit costs to get a better understanding of budgets. A detailed understanding of detailed costings and their drivers will be key in ensuring efficiencies are identified and monitored. A complete zero based budgeting exercise has been undertaken for Clean Streets and the Council should consider rolling out this approach more widely.	Amber

Financial Governance

Understanding and engagement

Area of focus	Summary observations	Assessment
Budget reporting: revenue and capital	• The budget is monitored on a monthly basis. Monthly reports are sent to managers for them to update their projected forecasts. Finance attend the monthly directorate management meetings to give an update on that directorate's budget position. A quarterly update is then given to all managers on the budget monitoring position as part of the SMT Performance Board. As part of this Board, performance monitoring is also presented which includes looking at performance against key indicators and statistics on customer complaints and compliments etc. • The Council reports the revenue and capital budget position regularly to Cabinet. The reports provide clear explanations for all significant variances and enable members to make informed decisions on the budgeted outturn position.	Green
Adequacy of other Committee/ Cabinet Reporting	• The Cabinet has a clear agenda and forward plan for the meetings. It discusses and takes decisions on the most significant issues facing the Council. The quarterly budget reports include details for general fund, housing revenue accounts, capital and debt levels. This could be strengthened further with reporting of financial health indicators covering financial health indicators such as cash balances, debt, payments made within agreed terms and inflation indices. These would help provide indications of trigger points. • The Council has clear committee structure including Governance and Audit Committee and Overview and Scrutiny Committee. It establishes working party's where further detailed review is required in identified areas such as standards, shared services and corporate performance.	Amber

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 a 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	• The Council has set clear principles in its budget process with the aim to provide a budget that meets day to day business activities as well as progressing its Corporate Plan priorities. • The budget is developed by building onto its existing budget provision and updating for inflationary increase, budget growth needed for service developments, savings, income and reserves. • The Council has a robust process in place for setting the budget and has a strong record of achieving its budgeted outturn with an underspend in recent years. There is a clear understanding of the financial pressures whilst meeting the priorities set out in the Corporate Plan.	Green
Performance against Savings Plans	• The Council has a robust process in place for identifying and monitoring savings. Historically, the Council has a good track record of meeting its budget and delivering the required savings every year. The savings target for 2012/13 was exceeded with a general fund underspend of £1.331m. • The savings target for the 2013-14 financial year is £1.6m. 2013/14 budget setting followed the same process as adopted in previous years and budget savings were identified within each directorate. These savings are built into the budget which is monitored on a monthly basis.	Green
Key Financial Accounting Systems	• There is a sound understanding of the ledger within the financial systems team. They are able to interrogate the system and run specialist reports as needed by budget holders and directors. • Our audit work in 2012/13 did not identify any key weaknesses in internal controls. • Internal Audit has provided good levels of assurance over the key financial systems during 2012/13.	Green

Financial Control

Internal and external assurances

Area of focus	Summary observations	Assessment
Finance Department Resourcing	• The Council has undergone a significant restructuring over recent years. The finance function has historically had significant capacity issues. In 2012/13, the team have made a number of internal changes and are now fully staffed. Although this has enabled significant improvement, capacity remains tight to deliver the full finance function and there is little contingency for any resourcing gaps or issues. • The Chief Executive and S151 officer is a shared role. This has allowed good oversight of the financial impact of all decisions made and has ensured excellent leadership within finance. However, given the range of complex strategic projects the Council is currently involved in, the joint role is a demanding one. The Council should revisit whether this dual role remains appropriate. • The accounts were produced in line with the Council's closedown plan and the supporting working papers were of a high quality, confirming the competency and knowledge of the finance team.	Amber
Internal audit arrangements	• Internal Audit is provided by East Kent Audit Partnership. A review of the service against the CIPFA Code of Practice for internal audit was undertaken during February 2013 and it was concluded that the service complies with the applicable professional standards. • Internal Audit has a good profile within the Council, are well supported by the leadership team and are often asked by officers to complete additional investigations or audits. A summary of all work completed is reported to the Governance and Audit Committee. • The Internal Audit team has reviewed the Public Sector Internal Auditing Standards which came into effect on 1 April 2013. The Council will need to obtain external verification of their compliance with the standards.	Green
External audit arrangements	• We propose to issue an unqualified audit opinion and value for money conclusion for 2012/13. • Management responded proactively to the recommendation made, and have made a number of significant changes to the process for the preparation of the 2012/13 financial statements. This is reflected in a lower level of errors in the financial statements, with the majority of errors found relating to presentation and disclosure items.	Green
Assurance framework/risk management	• The risk management arrangements are clearly set out and both members and officers receive training on its use. • The corporate risk register covers all strategic risks and includes all relevant information, including actions required. • Risks are mapped to corporate objectives, allocated to a named lead at a senior level, have a raw and residual risk and have relevant controls listed.	Green

Key Indicators of Financial Performance

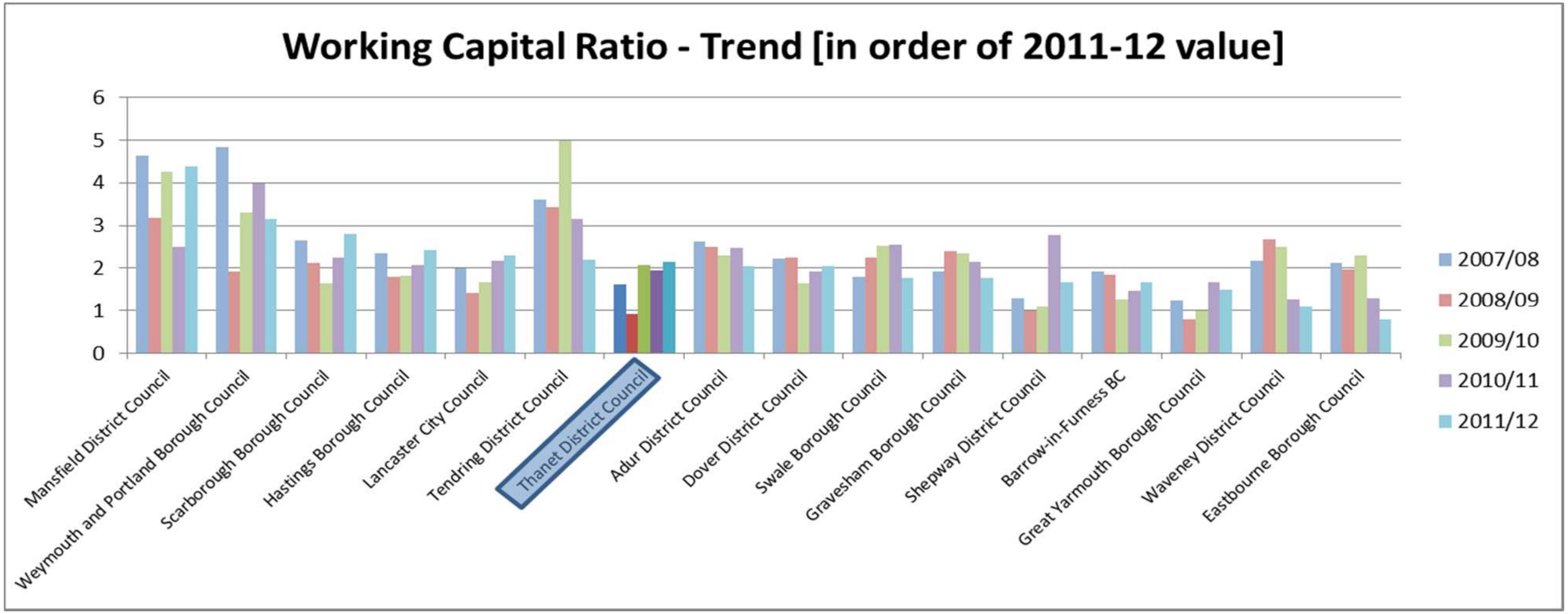
Working Capital - Benchmarked

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 - indicates 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

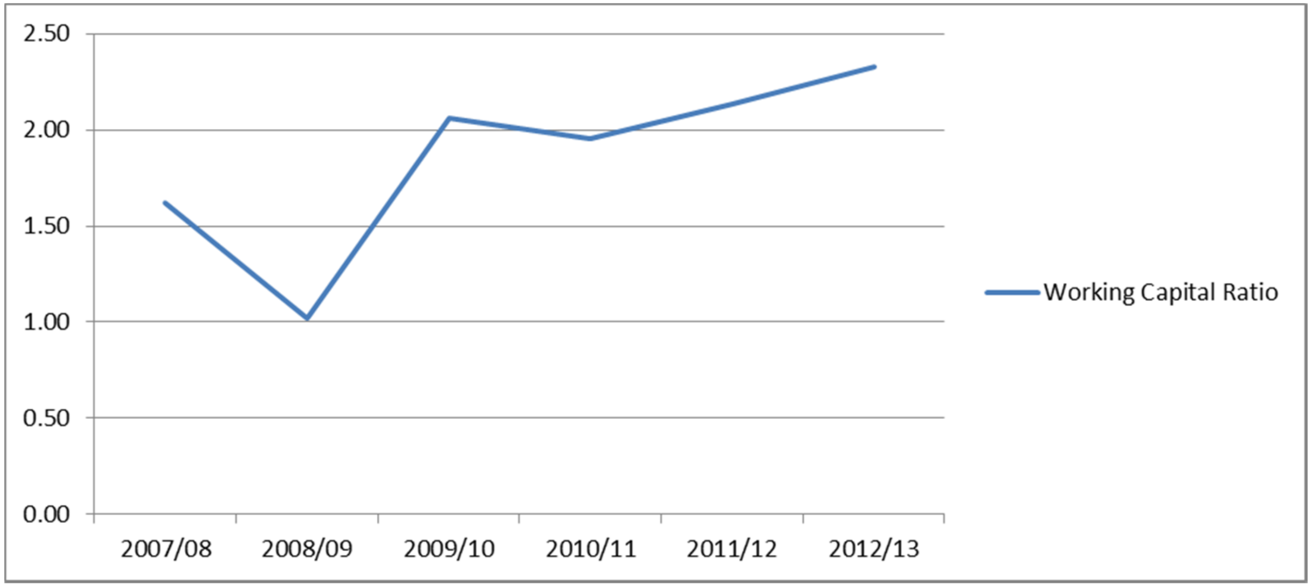
With the exception of Tendring, this graph indicates that those authorities in the middle of this range are managing their working capital around the benchmark 2:1 ratio. The other councils have experienced fluctuations over the period with Waveney's and Eastbourne's ratios dropping significantly over the 10/11 – 11/12 period to well below the benchmark. Contrarily, Thanet's position improved from the first two years covered by this graph to place it very close to the benchmark over the last three years.



Source: Audit Commission Financial Ratios Profile

Key Indicators of Financial Performance

Working Capital - Trend



Source: Audit Commission Financial Ratios Profile

Thanet's working capital ratio increased from 2.14 in 2011/12 to 2.33 in 2012/13. The council is therefore still above the preferred range of 2:1. This indicates that the council is maintaining a healthy level of liquidity.

However, there are likely to be significant pressures on the council's working capital as it faces a reduction in its income from central government as well as additional revenue obligations arising from its capital programme and additional planned borrowing. This will require careful budgeting to ensure that a healthy cash flow is maintained.

The council has recognised four contingent liabilities in its 2012/13 financial statements, which could result in additional pressure on working capital if any result in a financial obligation.

Key Indicators of Financial Performance

Usable Reserves - Benchmarked

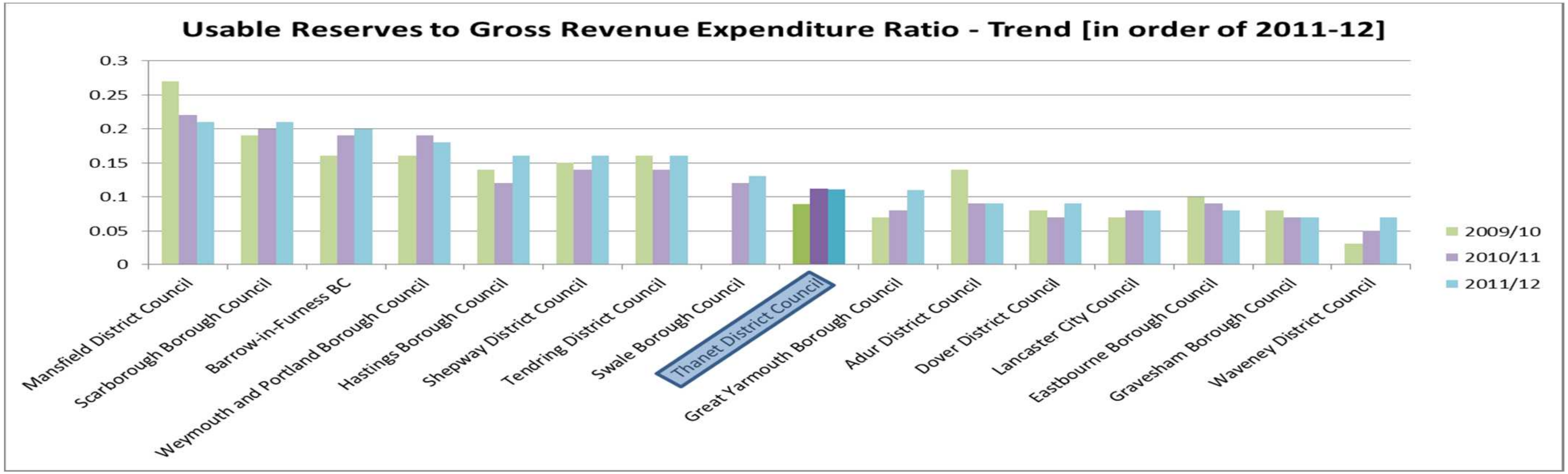
Definition

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

Recent years have seen some large value exceptional items being charged to the income and expenditure account, for example the change in calculation of pension liabilities and the HRA settlement payments made to the Secretary of State. To allow an effective comparison to be made of year-on-year data within and between local authorities these items have not been included.

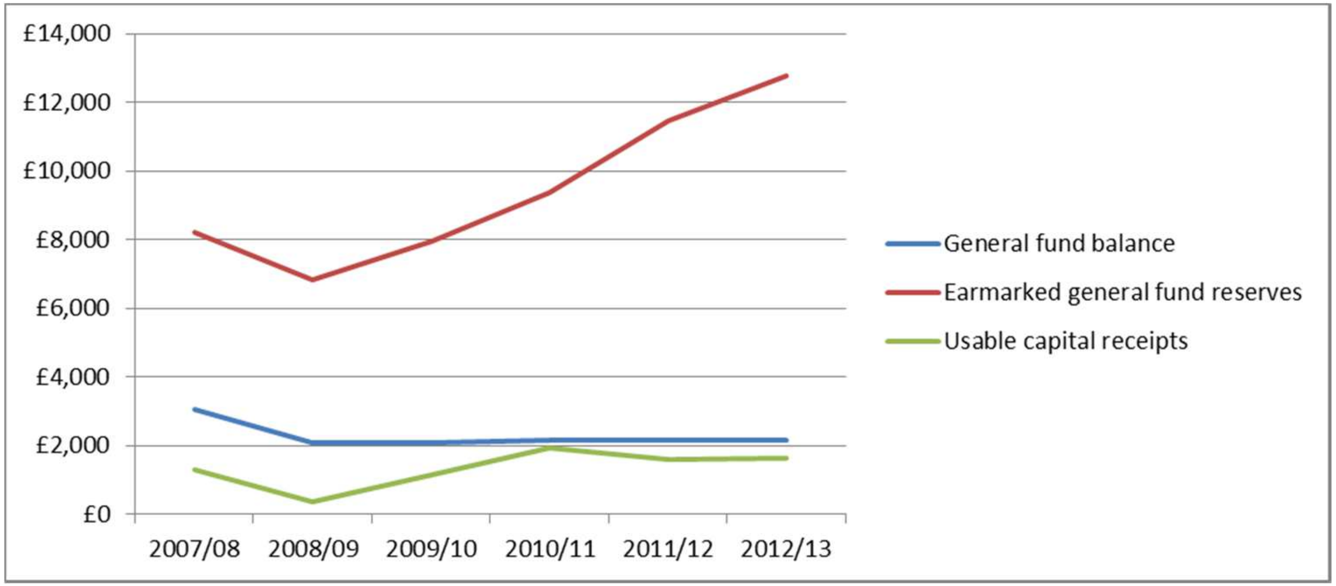
8 of the 15 councils have a higher level of usable reserves as a proportion of gross revenue expenditure than Thanet. At 0.11 Thanet's 11/12 ratio is approximately 17.5% lower than the group average of 0.13. This is not necessarily cause for concern. CIPFA's guidance on reserves is that the level should follow the Section 151 officer's advice to the Council, which should be based on local circumstances. Thanet's level of general reserves is consistent with that specified in its Medium Term Financial Strategy.



Source: Audit Commission Financial Ratios Profile

Key Indicators of Financial Performance

Usable Reserves - Trend by Type



Source: Audit Commission Financial Ratios Profile

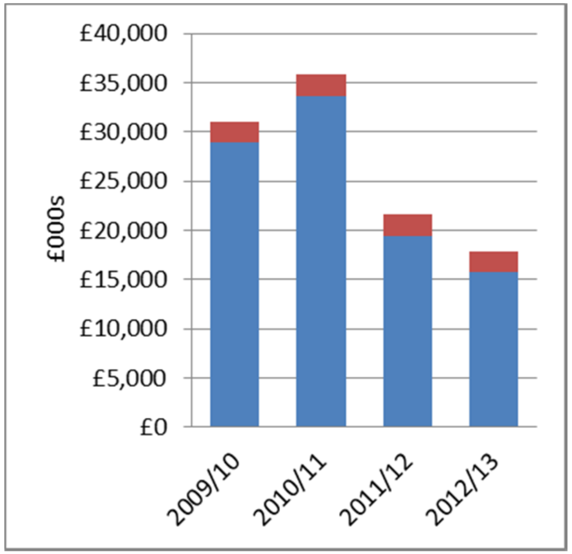
The graph shows that Thanet does not have a significant amount of capital receipts available with which to fund its capital programme. Its level of general reserves have remained steady, indicating that the council has not needed to draw on them to fund unexpected expenditure as the level of the reserve remains at the level specified in the council's Medium Term Financial Strategy.

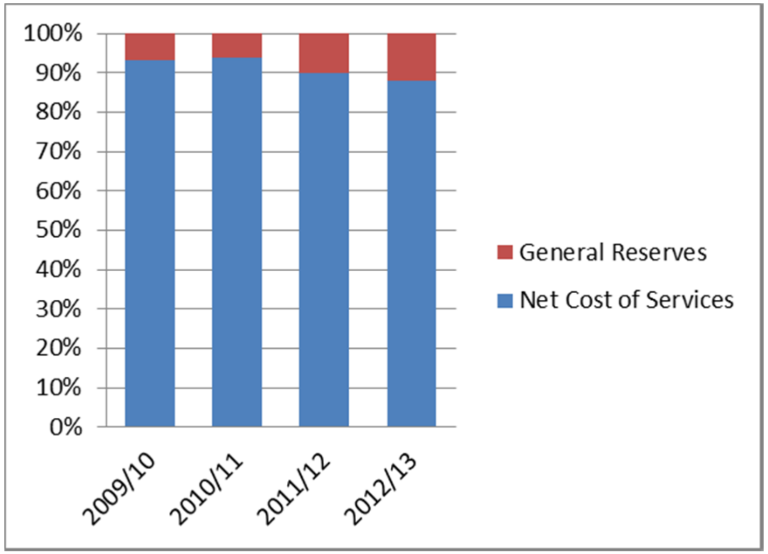
The council's earmarked general reserves have increased significantly since 08/09. As this is funding put aside for planned future expenditure the council would not be able to draw on these reserves to fund unexpected expenditure without impacting on its future spending plans. Also, as this funding has been set aside from council tax revenues it is important that the council has accurately forecast the level of funding required.

Key Indicators of Financial Performance

Reserves

The graphs below show the level of general reserves against the net cost of services balance. The first graph shows this in actual terms, the second in percentage terms.





Source: Audit Commission Financial Ratios Profile

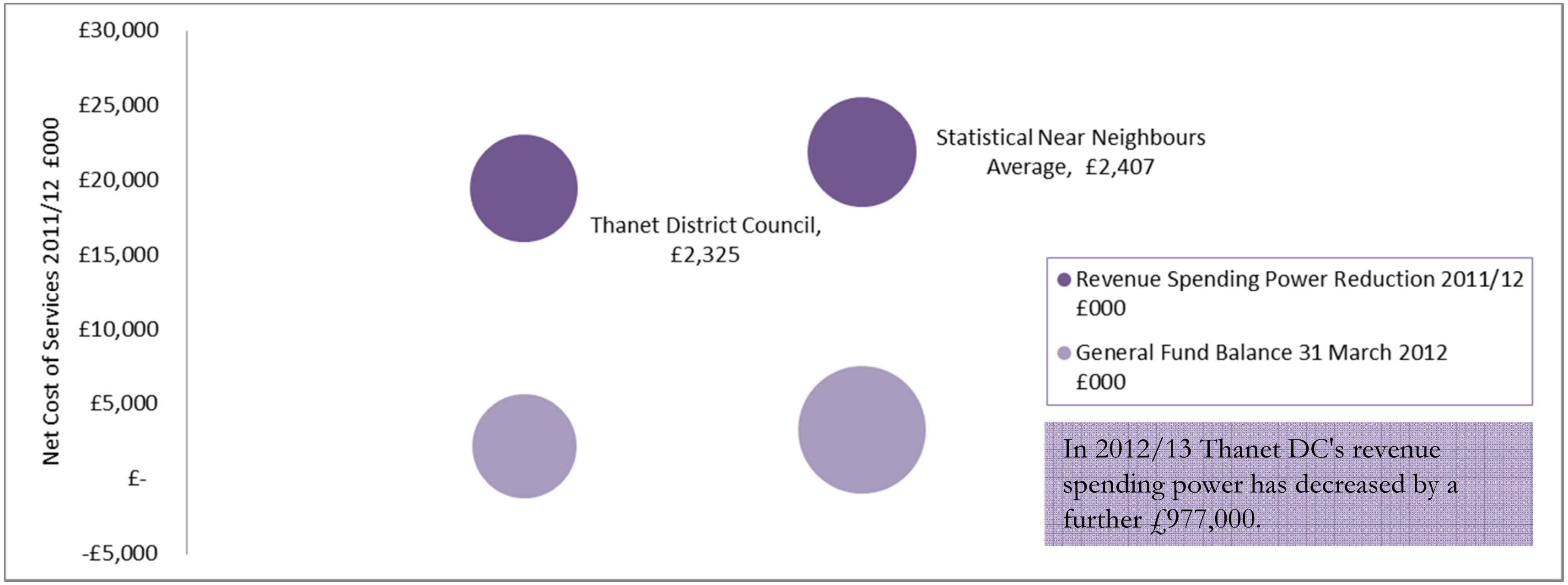
This comparison of Thanet District Council's net cost of services with its general fund balance excludes any exceptional items of income and expenditure to allow for a fair year-on-year comparison.

The spike in the 2010/11 net cost of services is due to a negative revaluation of the council's housing stock in that period. This is something that would have also been experienced by most other authorities who own social housing. Otherwise, the graph demonstrates the downward trend in the net cost of services that has been necessitated by the reduction in the council's income from central government.

The council has identified a need to make £3m in savings over the next four years. This will require careful financial planning if it is not to impact on the delivery of services.

Key Indicators of Financial Performance

Reserves: Spending Power Reduction 2011/12 vs. General Fund Reserves



Source: Audit Commission Financial Ratios Profile

This chart shows the reduction in revenue spending power in the size of the top circles. This represents the reduction from 2010/11 to 2011/12 in the council's income from government grants, council tax, and national non-domestic rates. This shows that Thanet had a slightly lower reduction but that its net cost of services was also lower than the group average. Expressed as a percentage of the net cost of services, the reduction in spending power is 11.96% for Thanet and 11.00% for its group of statistical near neighbours

The lower circles show the size of the council's and the group average general fund balance. (This is also shown by the circle's position on the y-axis.) It shows that the council had a slightly lower general fund balance than the group average. As explained on page 24, the size of this fund should be determined based on local circumstances. Thanet's general fund balance is consistent with that specified in its Medium Term Financial Strategy.

Key Indicators of Financial Performance

Long Term Borrowing to Tax Revenue - Benchmarked

Definition

Shows long tem borrowing as a share of tax revenue. A ratio of more than one means that long term borrowing exceeds council tax revenue.

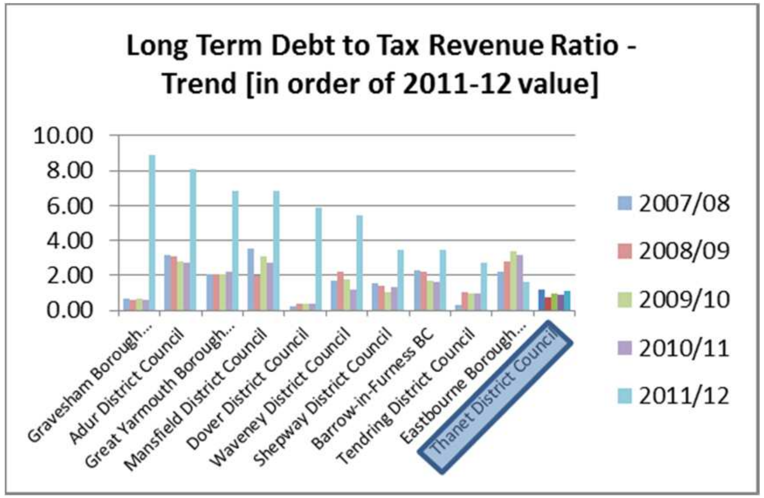
Findings

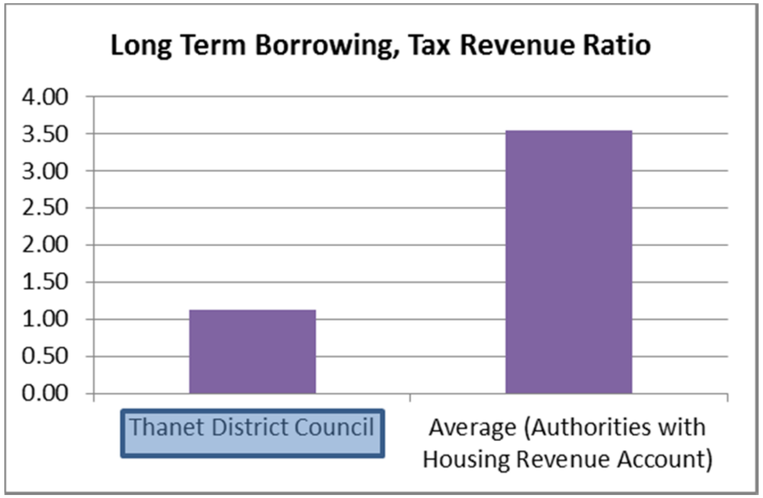
Only those authorities with a housing revenue account (HRA) are included in the graphs below. This is because the method of funding the HRA was changed by the government so instead of paying over a proportion of their housing income local authorities get to keep all the income but in return had to make a lump sum payment to the government based on the value of their housing stock. This was a significant amount in most cases and was funded through loans, which explains why the 2011/12 ratios are much higher.

The first graph shows Thanet's long term debt to tax revenue ratio compared with the ratios for the other ten authorities in its group of statistical near neighbours that have an HRA. The second graph compares Thanet's ratio with the average of all local authorities with an HRA, not just those in its statistical group.

Thanet's ratio is a lot lower than both its statistical neighbours and the average. This is because the council did not have to take on any additional debt and actually received a reduction in its debt of £925k from central government. This reduction in the council's HRA expenditure should allow it to invest in its housing stock.

Despite not having to take on any additional debt, the value of Thanet's existing debt is equivalent to more than 100% of its income from taxation. Given that this resource is continuing to decrease, it is important that the council has a plan in place for ensuring that this debt can be repaid without affecting its service provision.



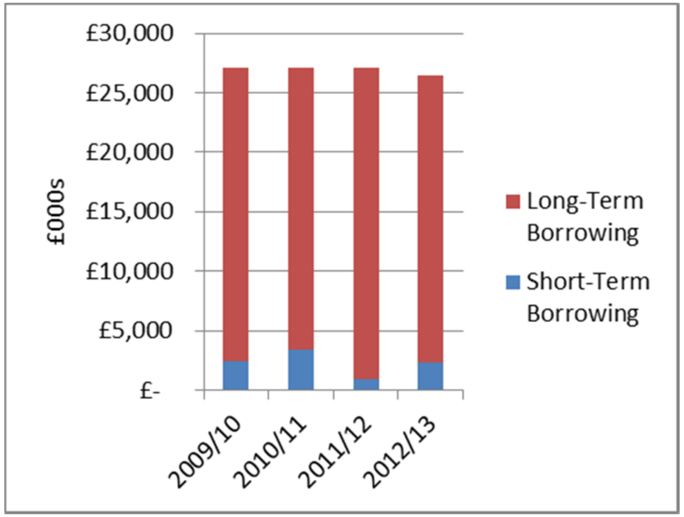


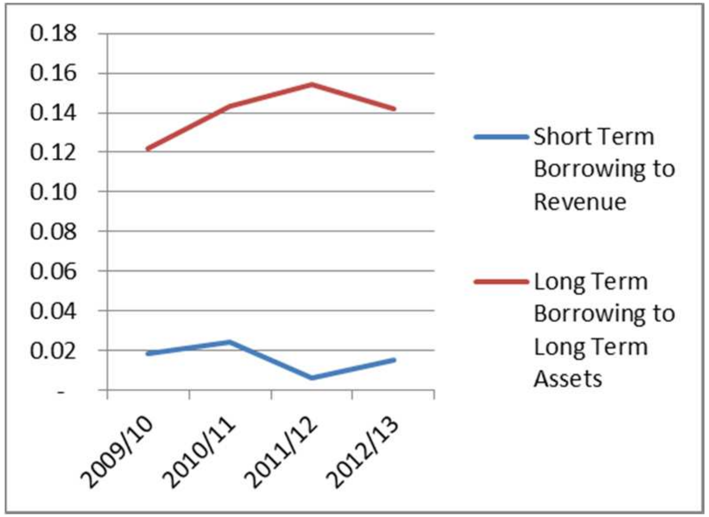
Thanet's ratio has decreased by 3.3% to 1.09 in 12/13

Source: Audit Commission Financial Ratios Profile

Key Indicators of Financial Performance

Borrowing





Source: Thanet District Council Statements of Accounts 2010/11 and 2011/12

The first graph shows borrowing balances for both long and short term borrowing in actual terms, the second graph shows the respective ratios between long term borrowing and assets and short term borrowing and revenue.

In these charts exceptional items have been excluded from the data to allow for a fair year-on-year comparison.

The first graph shows the total value of the council's debt over the last four years. It is important that the council has a range of maturity dates for its debt to avoid too much becoming due for repayment in any one financial year. Otherwise it may have to repay the debt with new borrowing, which may not provide tax payers with value for money.

The second graph shows that the council's short term debt has been approximately 2% of its revenue for the last four years, which, although not unaffordable, is significant given the pressure to freeze council tax despite decreasing income from central government.

The comparison of long term debt with long term asset shows that the council could sell assets to repay the debt if necessary. In practice, this would be difficult given the statutory nature of many of the council's functions.

Key Indicators of Financial Performance

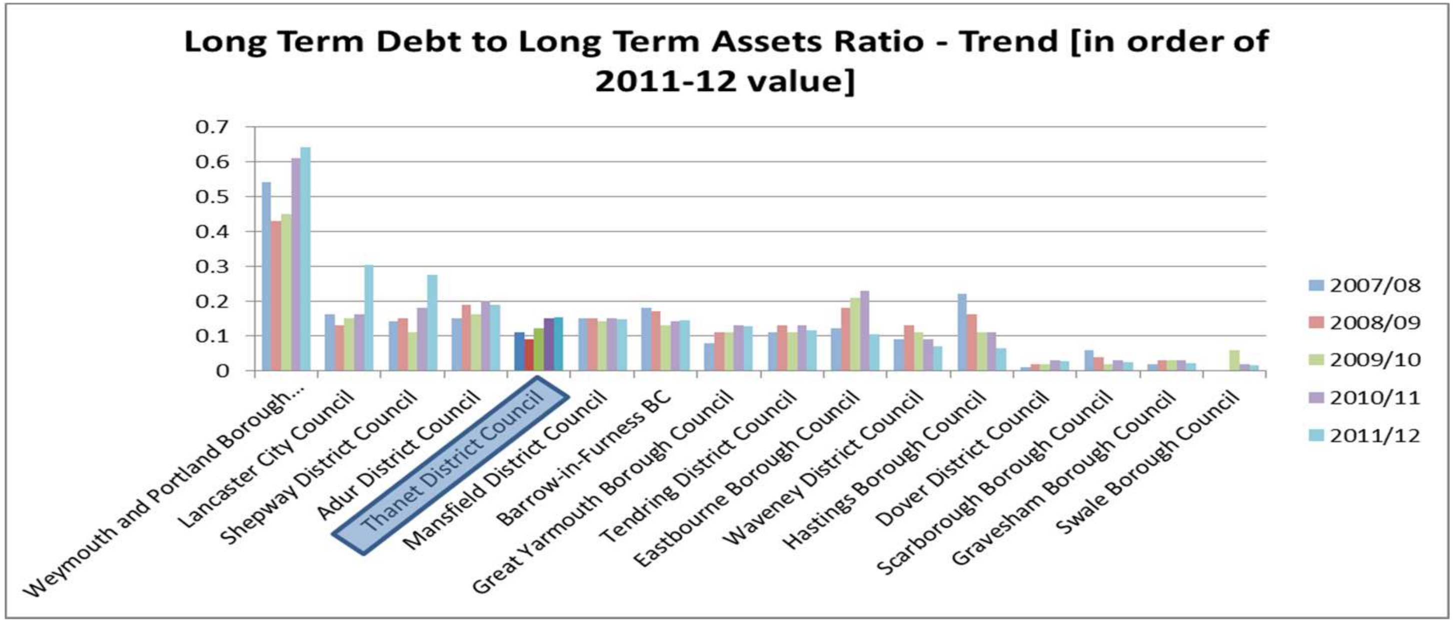
Long-term borrowing to Long-term assets - Benchmarked

Definition

This ratio shows long tem 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

Housing Revenue Account self-financing debt has been excluded to allow for a fair comparison with other authorities. Long term debt is usually used for financing investment in long term assets. All of the council's 15 statistical neighbours have long-term borrowing as at the end of 2011/12. The council's debt levels are similar to the majority of the group, with the bottom four being outliers with very little long term debt and Weymouth and Portland at the other end of the scale with a high value of long term debt in relation to its long term assets. Most of the councils in this comparison did not take out additional long term debt in 2011/12, which may be due to the uncertainty over future levels of income.



Source: Audit Commission Financial Ratios Profile

Key Indicators of Financial Performance

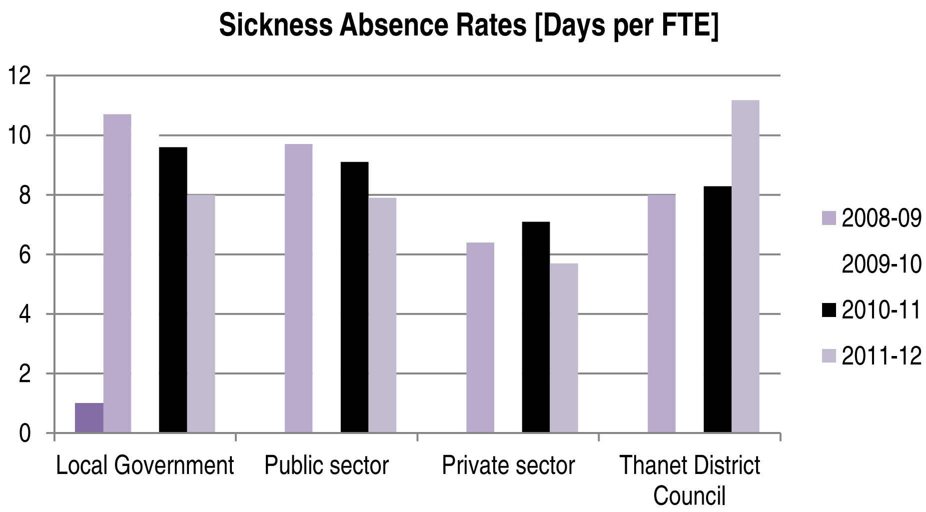
Sickness Absence Levels

Background

The average sickness absence level for the public sector is 9.6 days per FTE, whilst the private sector average is 6.6. Many councils have taken a proactive approach to reducing the number of days lost to sickness each year. For example:

- London Borough of Croydon reduced absence from 12.5 days to 6.4 days over two years due to a new tougher sickness absence management.
- Cambridgeshire County Council reduced sickness absence levels to 5 days per employee using an approach built on a relationship of trust with staff and empowering managers to take control of absence management.

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 during SR10, given the context of significant pressures on staff to deliver "more for less".



Source: Audit Commission Financial Ratio's

Findings

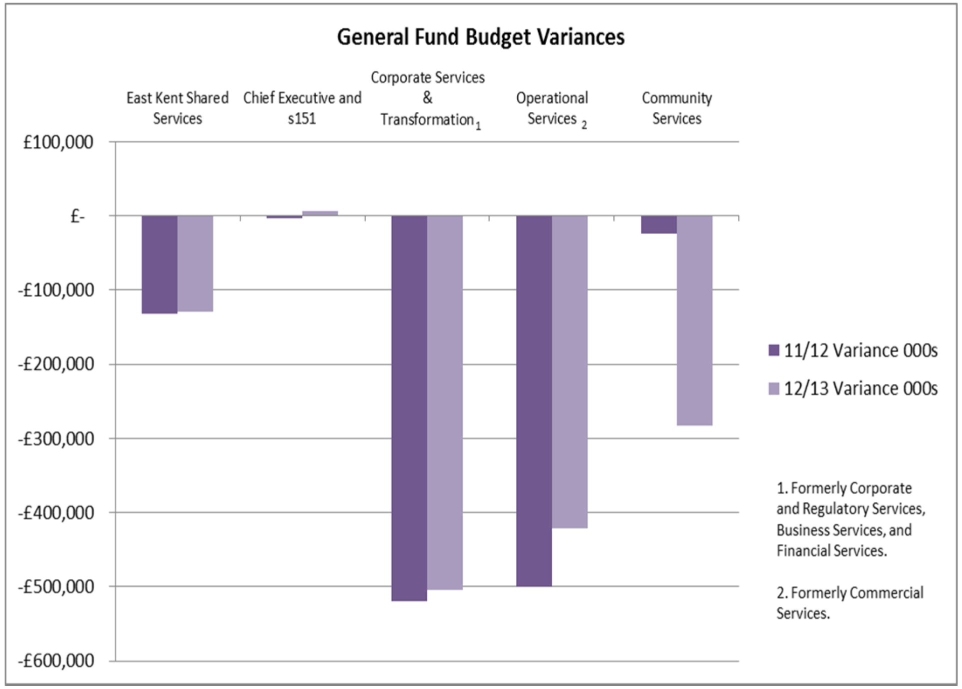
Thanet DC's sickness absence levels significantly increased from a historic level of around 8 days to 11.18 days in 2011/12. This further increased to 12.09 days in 2012/13, significantly above the average for all sectors.

The Council has recognised the issue and has in established monthly workforce meeting to monitor sickness statistics.

It will be important for Senior Management Team to maintain a robust approach to sickness absence monitoring for the recent trend to improve.

Key Indicators of Financial Performance

Performance Against Budget: Major Variances from Working Budget

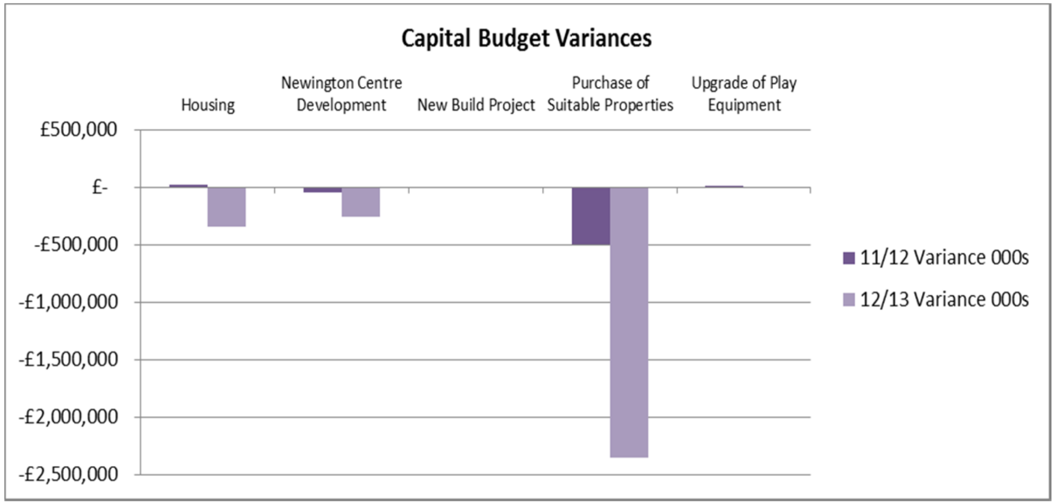


General Fund

The graph indicates that the shared service is being successful at generating savings for the council. Vacant post savings continue to contribute to the underspend in the operational services budget and cost savings were also achieved on the council's properties. Corporate services & transformation has made significant savings in both years on printing and postage and also generated increased summonses income in 13/14.

Capital

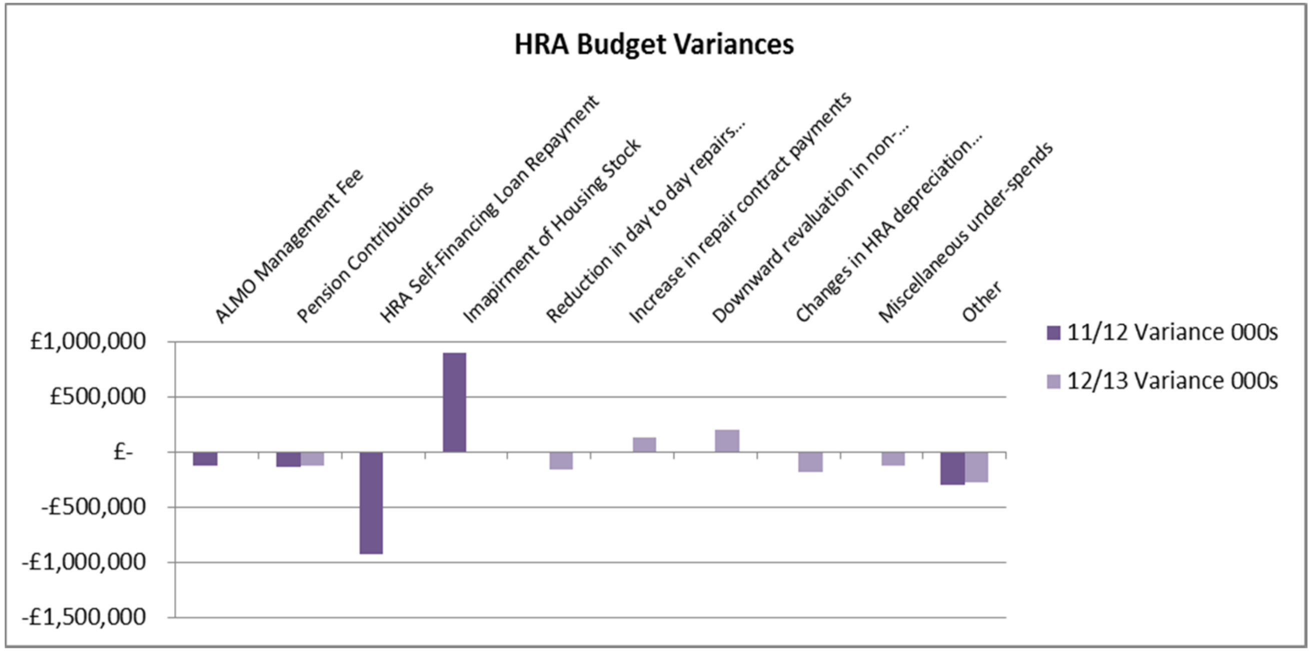
The significant underspend in relation to the purchase of suitable properties relates to the purchase of empty properties for the Margate Intervention and Ramsgate empty property schemes. There were delays in the procurement of contract works but the programmes are now under way.



Source: Financial Outturn Report to Cabinet 11/12 (July 2012) and 12/13 (August 2013)

Key Indicators of Financial Performance

Performance Against Budget: Major Variances from Working Budget



Housing Revenue Account
The two significant variances are not recurrent items. The 'underspend' relating to the HRA self-financing was a one-off payment made to council in settlement of the previous housing subsidy arrangements. The 'overspend' on the impairment of the housing stock was due to the downward revaluation of council dwellings being higher than expected. Such an occurrence is not unusual in the economic climate.
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Source: Financial Outturn Report to Cabinet 11/12 (July 2012) and 12/13 (August 2013)