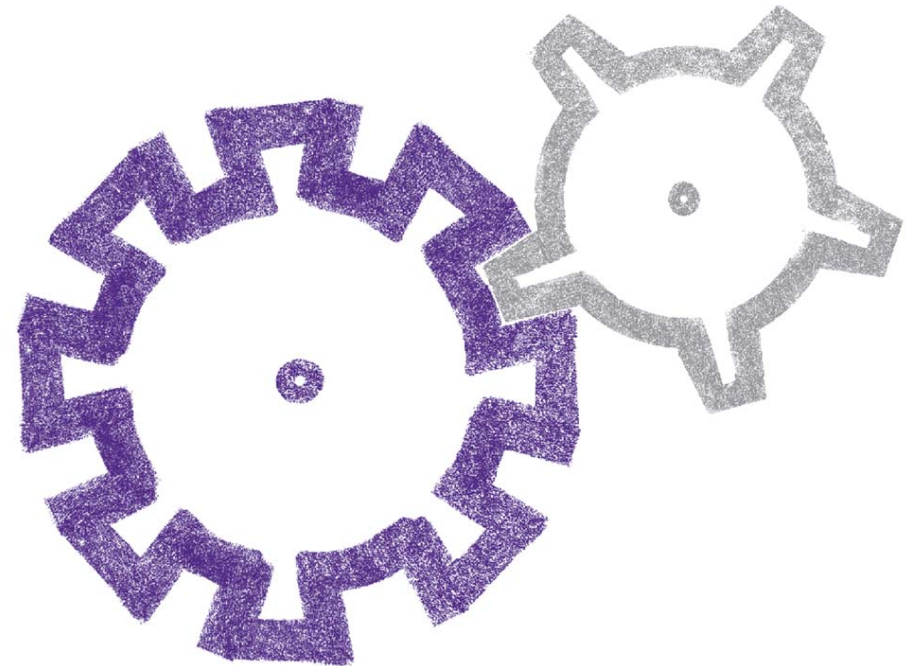


# Derby City Council

## Review of the Council's Arrangements for Securing Value for Money

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**Final Version** 20 September 2011



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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:

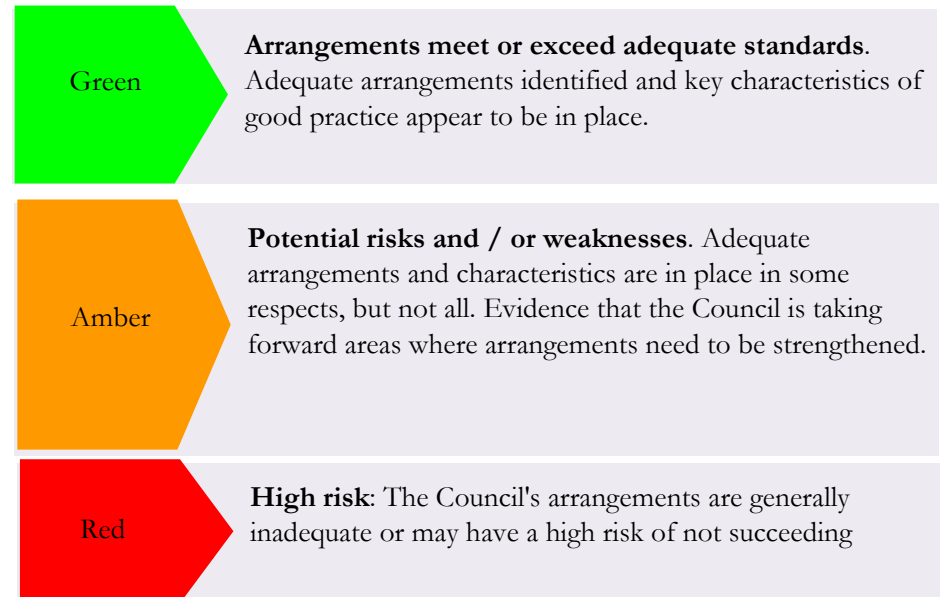
- Key indicators of financial performance;
- Its approach to strategic financial planning;
- Its approach to financial governance; and
- Its approach to financial control.

We have reviewed the ability of the Council to secure economy, efficiency and effectiveness by looking at:

- Its approach to prioritising resources; and
- Its approach to improving efficiencies.

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 significant risks and challenges in 2011/12 and beyond, its current arrangements for achieving financial resilience and securing economy, efficiency and effectiveness are adequate.

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



# Executive Summary

## National and Local Context

### Local Government Issues

The Chancellor of the Exchequer announced the Comprehensive Spending Review (CSR) to Parliament on 20 October 2010. This formed a central part of the Coalition Government's response to reducing the national deficit, with the intention to bring public finances back into balance during 2014/15.

The associated report published Government Departmental Expenditure Limits (DELs) for the four-year spending review period: 2011/12 to 2014/15. CLG funding was reduced by 26% over the period.

The CSR represented the largest reductions in public spending since the 1920's. Revenue funding to local government will 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 have been frontloaded, with 8% cash reductions in 2011/12.

The provisional Local Government Finance Settlement was announced on 13 December 2010. The final figures were announced on 31st January with the debate and approval by the House of Commons on 9th February. This represents a two year funding announcement, because the Government is delaying a decision on later years until after their review of local government finance.

This follows a period of sustained growth in local government spending, which increased by 45% during the period 1997 to 2007. The 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.

### Local Context





The city of Derby has a central location in England with strong transport links. It is predominantly urban with areas of open green space. It has a population of 244,100 (Office of National Statistics estimate of population 2009). 8.1% of Derby's population in the 16-64 age range were unemployed (2009 ONS Annual Population survey). The Index of Multiple Deprivation in 2007 ranked Derby as the 69th most deprived local authority in England (Nottingham and Leicester were 13th and 20th respectively).

The city is facing particularly tough challenges in the current economic climate. This has recently been exacerbated by the news that Bombardier, local employer of 3,000 staff, has lost a £1.4bn contract resulting in job losses of 1,400 which will have a significant negative effect on the local economy. The Council, together with other local agencies, is looking at the impact of this on the city and possible mitigations.

Additionally, the Council has announced a further round of redundancies of up to 500 full time staff as a response to deepening financial pressures.



## Executive Summary

### Overview of Arrangements

Risk area	Summary observations	High level risk assessment
<b>Financial Resilience</b>		
<b>Key Indicators of Performance</b>	The Council generally shows a strong position relative to the nearest neighbour benchmark group, showing a balanced budget with sufficient reserves, liquidity and strength in its workforce strategy. This is underpinned by the 'one Derby, one Council' business transformation programme across the Council.	 <b>Green</b>
<b>Strategic Financial Planning</b>	The Council maintains up to date corporate plans which are regularly reviewed and challenged, enabling swift responses to external factors. These are closely linked to budgets. Planning arrangements have been strengthened in the light of the Comprehensive Spending Review, using a collaborative approach combined with scenario planning to aid the prioritisation of resources.	 <b>Green</b>
<b>Financial Governance</b>	The governance arrangements are generally fit for purpose. However, as the profile of Audit Committees within local government is set to increase, there will be an additional requirement for the Council to seek opportunities to strengthen its arrangements. Officers have developed plans which address this, including training programmes for Members.	 <b>Green</b>
<b>Financial Control</b>	The financial control of the Council has seen improvements in 2010/11 largely as a result of the corporate efficiency programme, combined with other factors such as usage of internal and external assurance mechanisms. The Council has a strong understanding of its costs and performance, assisted by a robust finance system.	 <b>Green</b>

## Executive Summary

### Overview of Arrangements

Risk area	Summary observations	High level risk assessment
<b>Securing Economy, Efficiency and Effectiveness</b>		
<b>Prioritising Resources</b>	Economic and demographic changes and trends, emerging pressures and stakeholder views are all incorporated into resource modelling in order to achieve the most efficient prioritisation of resources.	 <b>Green</b>
<b>Improving Efficiency and Productivity</b>	The Council has a good understanding of its costs. The DECATS (Delivering Efficient Corporate and Transactional Services) project has identified a large number of cost savings. Opportunities for additional savings and efficiencies are constantly being identified through challenging service delivery methods.	 <b>Green</b>

## Executive Summary

### Next Steps

Area of review	Key points for consideration	Responsibility	Timescale	Management response
<b>Key Indicators of Performance</b>	<ul style="list-style-type: none"> <li>It will become increasingly important for the Council to ensure that it continues to monitor liquidity closely in the continued turbulent economic climate.</li> <li>The Council should continue to closely monitor its staff sickness policies and procedures. This is a nationally prominent issue and is a matter to be addressed by all Councils. Given staff restructuring we appreciate that this will need careful management.</li> </ul>	Roger Kershaw (Strategic Director of Resources/ S151 Officer)	Ongoing	<ul style="list-style-type: none"> <li>The S151 Officer has monthly treasury management meetings with the Group Accountant responsible in which they monitor all aspects of cashflow management and investments. These are minuted.</li> <li>Sickness absence is monitored monthly against target by managers and reviewed by Chief Officer Group.</li> </ul>
<b>Strategic Financial Planning</b>	<ul style="list-style-type: none"> <li>We are pleased that the Council is adopting Zero Based Budgeting from 2011/12. This is an important factor in the success of strategic prioritisation of resources to support the Council. It should therefore ensure that this is implemented.</li> </ul>	Roger Kershaw (Strategic Director of Resources/ S151 Officer)	Ongoing	<ul style="list-style-type: none"> <li>An Activity Based Budgeting approach has been developed culminating in the recent production monthly activity statements which were reinforced by the Star Chamber process in September 2011.</li> </ul>
<b>Financial Governance</b>	<ul style="list-style-type: none"> <li>In the context of continuous improvement and the profile of Audit Committees becoming more prominent in line with DCLG initiatives, it is important for all Councils to seek opportunities to strengthen arrangements in this regard. We are pleased to note that plans are in place to address this within the Council, in particular an Audit Committee self-evaluation process is scheduled. We recommend that the Council actively encourages improvement in this area and supports Members accordingly.</li> </ul>	Roger Kershaw (Strategic Director of Resources/ S151 Officer)	December/ Ongoing	<ul style="list-style-type: none"> <li>A comprehensive Member training programme is in progress including a self-assessment of the Audit Committee which is planned for December 2011.</li> </ul>



## Executive Summary

### Next Steps

Area of review	Key points for consideration	Responsibility	Timescale	Management response
<b>Financial Control</b>	<ul style="list-style-type: none"> <li>The Council has undertaken a comprehensive reduction in staff numbers in response to the CSR. It is important for the Council to ensure that service delivery and back office support is not compromised as a result. To help achieve this, it must ensure that budget holders become increasingly independent of Finance staff in respect of budget management, supported by a fit for purpose Finance system. A review of this should be considered for inclusion in the Internal Audit programme.</li> </ul>	Roger Kershaw (Strategic Director of Resources/ S151 Officer)	Ongoing	<ul style="list-style-type: none"> <li>The Council is rolling out an extensive training programme for budget holders to ensure that they have the requisite capability to discharge their duties.</li> <li>The Council's Finance system (Oracle) is programmed to be upgraded in May 2012 to enhance its ability to support budget holders. Oracle has wider potential to deliver further benefits which the Council is developing.</li> </ul>
<b>Prioritising Resources</b>	<ul style="list-style-type: none"> <li>We are pleased to note that the Council has a comprehensive consultation programme with stakeholders to ensure that resources are focused in service areas which are of most benefit to residents. This is particularly relevant to the Council's relationship with the local health service which is also experiencing severe budgetary pressures. The Council should therefore ensure that service provision is not compromised in areas where there is overlap.</li> </ul>	Roger Kershaw (Strategic Director of Resources/ S151 Officer)	Ongoing	<ul style="list-style-type: none"> <li>The MTFP is the central component of the Council's planning process which enables it to plan resources to meet priorities. The Council aims to set the budget early (December 2011) to enable sufficient consultation to take place given the economically challenging circumstances.</li> </ul>
<b>Improving Efficiency and Productivity</b>	<ul style="list-style-type: none"> <li>The Council undertakes a wide range of benchmarking activity to gauge its performance against that of comparable councils. It should ensure that action is taken to follow up where necessary.</li> <li>We are pleased with the progress made through the DECATS programme and recommend that this momentum continues given continued economic turbulence.</li> </ul>	Roger Kershaw (Strategic Director of Resources/ S151 Officer)	Ongoing	<ul style="list-style-type: none"> <li>The Council recognises the importance of benchmarking. However, benchmarking information is becoming increasingly difficult to gather as other councils do not produce like-for-like data.</li> <li>The DECATS programme has become part of the Council's wider business transformation which is set to expand.</li> </ul>

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Appendix - Key indicators of financial performance

## Key Indicators

### Introduction

This section of the report includes analysis of key indicators of financial performance, benchmarked where this data is available. These indicators include:




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

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




Swindon Borough Council  
Stockton on Tees  
Dudley Metropolitan Borough Council  
Doncaster Metropolitan Borough Council  
Darlington Borough Council  
Kirklees Metropolitan Borough Council  
Calderdale Metropolitan Borough Council  
Bolton Metropolitan Borough Council  
Peterborough City Council  
Stoke on Trent City Council  
St. Helens Metropolitan Borough Council  
Rotherham Metropolitan Borough Council  
Coventry City Council  
Walsall Metropolitan Borough Council  
Wolverhampton City Council

# Key Indicators

## Overview of performance

Area of focus	Summary observations	Assessment
<p><b>Performance Against Budget</b></p>	<ul style="list-style-type: none"> <li>The Council had an outturn of £1.168m net underspend in 2009/10. In 2010/11 the underspend was £1.428m. The Council has a track record of delivering its budget whilst channelling resources to priority areas. All departments reported underspends in 2010/11. By far the most significant underspend was in the corporate budgets department with a £3.5m underspend.</li> <li>The Council spent £73m in 2010/11 on its capital programme. Unapplied capital resources totalled £26.114m as at March 2011 to be carried forward.</li> <li>The HRA (Housing Revenue Account) recorded a surplus of £18m in 2009/10 and is forecast to do the same in 2010/11, which shows a strong performance against a general requirement to break even. Total expenditure is £17m.</li> </ul>	 <p>Green</p>
<p><b>Reserve Balances</b></p>	<ul style="list-style-type: none"> <li>Unallocated general reserves were £6.74m in 2009/10. The balance was consistent with the Council's financial policy of holding general reserves at approximately 2% of budget. The Council recognises that reserves should not be depleted given the increased risks of the current economic landscape.</li> <li>Other revenue reserves available to the general fund were £50.93m and were earmarked for either service or corporate use.</li> <li>The 2011/12 budget relies on £3.573m use of reserves to support the balanced budget position. This use of reserves has been used to support one-off costs relating to the Council's accommodation strategy and costs relating to the efficiency programme.</li> <li>The Council's useable reserves as a percentage of expenditure were relatively high compared to the nearest neighbour benchmark group in 2009/10.</li> </ul>	 <p>Green</p>
<p><b>Schools Balances</b></p>	<ul style="list-style-type: none"> <li>School balances are maintained at relatively low levels. They were below the 25th percentile in the nearest neighbour benchmark group, meaning that funds are being spent on the education of the current cohort of pupils and not held in reserves for future projects.</li> </ul>	 <p>Green</p>

## Key Indicators

Area of focus	Summary observations	Assessment
<b>Liquidity</b>	<ul style="list-style-type: none"> <li>The working capital ratio indicates whether a council has enough current assets to cover its immediate liabilities. The Council had a ratio of 1.45 in 2009/10 which is above the 75th percentile for the nearest neighbour benchmark group. A high figure may not be an indicator of strong financial management: it could mean that the Council is not investing surplus cash.</li> </ul>	 <b>Green</b>
<b>Borrowing</b>	<ul style="list-style-type: none"> <li>The Council's long term borrowing to tax revenue ratio for 2009/10 at 0.25 is roughly average for the benchmark group. It has an authorised external debt limit of £642m and actual debt outstanding of £349.5m at the 2010/11 year end. Borrowing is well within its limits and therefore not a risk. During year 2010/11 borrowing increased by £1.5m in line with the Council's approved treasury management strategy.</li> </ul>	 <b>Green</b>
<b>Workforce</b>	<ul style="list-style-type: none"> <li>A major overhaul of agency staff has resulted in a move to a single supplier for over 95% of the Council's temporary workers resulting in significant savings.</li> <li>The Council's new workforce strategy 2010/13 sets out the framework for integrated planning.</li> <li>The Council works with other organisations to secure the workforce that Derby needs.</li> <li>There has been a significant number of redundancies introducing the risk that there is insufficient resource to deliver services but this is being closely monitored.</li> <li>Sickness levels are relatively low at an average of 8.25 days in 2010/11, lower than the target of 8.65 days demonstrating strength in the arrangements for promoting a healthy workforce. We understand that these figures have fallen further recently. This compares very favourably with the public sector average of 9.3 days. The private sector average is 6.6 days.</li> </ul>	 <b>Green</b>

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Appendix A - Key indicators of financial performance

## 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 MTFS focuses resources on priorities.
- The MTFS 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 MTFS 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 MTFS 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 MTFS.

# Strategic Financial Planning



## Medium Term Financial Strategy

Area of focus	Summary observations	High level risk assessment
<p><b>Focus of the MTFS</b></p>	<ul style="list-style-type: none"> <li>• The Council has an MTFS which is updated to reflect changes to the changing economic landscape. There are regular updates to reflect changes and these are reported to Cabinet. The MTFS is closely linked to the corporate objectives.</li> <li>• The Derby Plan covers the period 2011-2026 and the Council Plan 2011-2014.</li> <li>• The Council began the process of identifying priority areas with a 'Three Wishes' campaign to invite members of the public to identify their key requirements. It has developed its vision with stakeholders to build into the planning process.</li> <li>• Planning is now firmly focussed on desired achievements and how efficiencies will be measured.</li> </ul>	<p style="text-align: center;">● Green</p>
<p><b>Scope of the MTFP and links to annual planning</b></p>	<ul style="list-style-type: none"> <li>• The MTFP has strong links with the overarching planning process and reflects current economic conditions.</li> <li>• A collaborative approach to developing these plans is used.</li> <li>• The budget links to corporate objectives and in turn to the MTFP to ensure a close fit.</li> </ul>	<p style="text-align: center;">● Green</p>
<p><b>Adequacy of planning assumptions</b></p>	<ul style="list-style-type: none"> <li>• Assumptions around income are based on detailed analysis and the Council's track record.</li> <li>• The Council uses scenario planning to predict the impact of changes which cuts would make to enhance its assumptions.</li> </ul>	<p style="text-align: center;">● Green</p>



# Strategic Financial Planning

## Medium Term Financial Strategy

Area of focus	Summary observations	High level risk assessment
<b>Review processes</b>	<ul style="list-style-type: none"><li>• Review processes include development and sign off of savings plans and their deliverability. All plans (efficiency savings etc) go to SMT meetings and cabinet.</li><li>• The Council reviewed the impact of changes on all external factors such as demand for services and inflation on planning decisions.</li><li>• The Council has a rigorous budget review process and for 2011/12 will move to an Activity Based Costing approach to reviewing areas of spend. Star Chambers (comprising Members, Chief Executive and Director of Resources) are used to challenge each service on savings pressures, growth bids and performance. This includes benchmarking analysis using the CIPFA VfM Toolkit and other unit costing data to put spend and performance into context with comparators.</li></ul>	 <b>Green</b>
<b>Responsiveness of the Plan</b>	<ul style="list-style-type: none"><li>• The Council responds swiftly to ensure that external challenges such as the CSR are incorporated into its plans.</li><li>• The forward financial planning process identifies any shortfalls in resourcing and underlying cost pressures in the medium term.</li></ul>	 <b>Green</b>

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Appendix - Key indicators of financial performance

# 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
<b>Understanding the Financial Environment</b>	<ul style="list-style-type: none"> <li>The Council's Risk Management Strategy is well developed and embedded throughout the organisation.</li> <li>A Strategic Risk Group takes responsibility, with regular updates to Audit and Accounts Committee, for risks which are linked to strategic objectives.</li> <li>The Annual Governance Statement outlines actions taken and those needed to address current concerns. It underpins the risk management culture of the organisation.</li> <li>The Audit and Accounts Committee provides scrutiny of the Council's governance arrangements.</li> <li>Members and SMT have collective responsibility for financial matters and understand the landscape in which they operate.</li> </ul>	 <b>Green</b>
<b>Executive and Member Engagement</b>	<ul style="list-style-type: none"> <li>As the profile of Audit Committees within Local Government becomes more prominent and the demands increase on Members (e.g. understanding IFRS), there will be additional requirements to seek opportunities to strengthen the Council's arrangements in this area. Officers have plans in place to address this including a refreshed Member training programme within the context of continuous improvement.</li> <li>Monthly news and communications take place to ensure that all are aware of challenges faced and facility for upwards feedback.</li> <li>Meetings are arranged to challenge existing budgets and scrutinise pressures and savings.</li> <li>Stakeholder consultation takes place on all spending proposals.</li> </ul>	 <b>Amber</b>
<b>Overview for controls over key cost categories</b>	<ul style="list-style-type: none"> <li>The Council understands what costs it incurs and how these costs are driven.</li> <li>Cost information is gathered and circulated to assist decision making and analysis.</li> <li>Cost control targets are set and performance against these monitored.</li> <li>The DECATS (Delivering Efficient Corporate and Transactional Services) project was an organisation-wide review of all services and processes helping to shape the 'one Derby, one Council' transformation programme which has been a catalyst for change. To date the transformation programme has delivered £6.6m in efficiency savings across a range of categories and projects.</li> </ul>	 <b>Green</b>

# Financial Governance

## Monitoring and review

Area of focus	Summary observations	High level risk assessment
<p><b>Review of accuracy of Committee/Cabinet Reporting</b></p>	<ul style="list-style-type: none"> <li>The Council prepares detailed monthly budget monitoring reports for Officers and Members. Quarterly reports provide an in-depth analysis of performance against budgets.</li> <li>The Finance system used is Oracle which facilitates data integration and is kept up to date with software releases. There are therefore no issues with the production and reconciliation of data. There are also opportunities for the Council to increase its use of Oracle functionality to develop areas such as management information.</li> <li>Financial reporting is robust and comprehensive.</li> </ul>	<p> Green</p>
<p><b>Performance Management of Budgets</b></p>	<ul style="list-style-type: none"> <li>All financial reports compare results against plan and compare against revised budget.</li> <li>Information is circulated and reviewed regularly and scrutinised at the appropriate level.</li> <li>The Council has a balanced scorecard of Key Performance Indicators which are monitored on a monthly basis by Chief Officer Group and reported quarterly to Cabinet. This includes four themes; Value for Money, customer/service user, business process and people. Improvement targets are approved by Cabinet each year. In 2010/11 65% of targets were achieved, being a 61% improvement on the previous year.</li> <li>Value for Money is also analysed as part of the 'one Derby one Council' transformation programme.</li> </ul>	<p> Green</p>

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Appendix - Key indicators of financial performance

## 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
<b>Performance Management of Budgets</b>	<ul style="list-style-type: none"> <li>• In-year financial performance is reported to Chief Officer Group regularly.</li> <li>• The Council has a good understanding of its costs and performance.</li> <li>• The Council's transformation programme is taking forward the VfM agenda which includes a set of local VfM measures.</li> </ul>	 <b>Green</b>
<b>Performance against Savings Plans</b>	<ul style="list-style-type: none"> <li>• For NI 179 DCC had VfM gains of £7.1m in 2009/10, below the median for the benchmark group of £15.8m.</li> <li>• The percentage of Derby residents who think the Council provides good value for money was 29% in 2009/10 (up from 27% in 2008/09) which is at the median of 29%.</li> <li>• Major performance plans have since made an impact on the Council. Total savings relating to NI 179 in 2010/11 were on budget at £4.6m.</li> </ul>	 <b>Green</b>
<b>Finance Department resourcing and qualifications / experience</b>	<ul style="list-style-type: none"> <li>• There will be a reduction in the Finance Team/Resources Department as a result of the redundancy programme. However, the risk that this may impact upon the ability of the Finance Department to discharge its duties effectively is very low, in our opinion, due to very little change at the more senior levels within this team who can assure continuity.</li> </ul>	 <b>Green</b>



# Financial Control

## Internal and external assurances

Area of focus	Summary observations	High level risk assessment
<p><b>Summary of key financial accounting systems</b></p>	<ul style="list-style-type: none"> <li>The finance system used is Oracle. The financial statements and the Council's internal management accounts reconcile which ensures both internal and external information is reported consistently.</li> </ul>	 <b>Green</b>
<p><b>Internal audit arrangements including compliance with CIPFA Code of Practice for Internal Audit</b></p>	<ul style="list-style-type: none"> <li>The Council has an effective internal audit function which complies with CIPFA standards.</li> <li>Internal Audit is performed in-house and is robust.</li> <li>Internal Audit plans have to be approved by the Audit and Accounts Committee annually. Action plans are followed up and monitored by way of a system to control these so that issues are followed up and monitored. Status updates are presented to Audit and Accounts Committee and management regularly.</li> </ul>	 <b>Green</b>
<p><b>External audit arrangements and programme of activities</b></p>	<ul style="list-style-type: none"> <li>The conclusions from the most recent Annual Audit Letter noted that the Council will need to ensure that:                             <ul style="list-style-type: none"> <li>its workforce plan is designed to improve efficiency.</li> </ul> </li> <li>it maintains a flexible approach in respect of future financial planning within the context of the ongoing requirement to make significant savings across the activities of the Council as the need to identify new ways of making efficiencies deepens.</li> <li>The Council has made good progress in addressing these recommendations.</li> </ul>	 <b>Green</b>

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Appendix A - Key indicators of financial performance

# Securing Economy, Efficiency and Effectiveness

## Key indicators of securing economy, efficiency and effectiveness

In conducting our review of securing economy, efficiency and effectiveness we have assessed the Council's performance against the following indicators:

### Prioritising Resources




- Leadership from senior management on prioritising resources and spending reductions.
- Review and challenge of corporate priorities and cost effectiveness, identifying where activities do not contribute sufficient value.
- Consultation with frontline staff and local residents.
- Decision making based on adequate information.
- Options appraisal.
- Consideration of alternative lower cost options.
- Justify spending compared to others.
- Cost reductions do not result in reduced efficiency or increased spending elsewhere.
- Record of spending in non priority areas.

### Improving Efficiency and Productivity

- Information on costs.
- Use of comparative data to challenge VfM practice.
- Efficiency plans.
- Evaluation of options.
- Input from staff into efficiency options.
- Challenge to service delivery.
- Monitoring achievements.
- Success in achieving efficiencies.





# Securing Economy, Efficiency and Effectiveness

## Prioritising Resources

Area of focus	Summary observations	High level risk assessment
<p><b>Leadership of Senior Management regarding prioritising resources</b></p>	<ul style="list-style-type: none"> <li>The allocation of resources is completed through the budget setting process with heads of service taking responsibility for their own areas, with scrutiny and challenge by Members and Executive.</li> <li>The Council has identified savings required over the period covered by the MTFF and is ahead of schedule in delivering these as evidenced by the underspend.</li> </ul>	<p> Green</p>
<p><b>Consultation with stakeholders</b></p>	<ul style="list-style-type: none"> <li>As part of the budget setting process, heads of service reviewed their own service areas and kept staff involved and informed through regular meetings.</li> <li>The Chief Executive has held road shows to keep all staff updated and allow input.</li> <li>Local residents have been consulted via surveys and events to rank services with a strong response received.</li> <li>There is close involvement of Scrutiny Committees during the budget process.</li> <li>The Council received an 'excellent' rating in the Equality Framework for Local Government in March 2011, one of five in the country to date.</li> </ul>	<p> Green</p>
<p><b>Cost analysis</b></p>	<ul style="list-style-type: none"> <li>As part of the review of service areas, heads of service considered different possible cuts and the risks associated with each. The results of this process were summarised in formal budget proposals. This is not considered to be formal cost/benefit analysis or options appraisal, however it is considered adequate for an organisation of this size.</li> <li>The Council continues to have a close working relationship with the third sector. When assessing alternative service delivery models as part of the commissioning cycle, use of the third sector is always considered.</li> </ul>	<p> Green</p>

# Securing Economy, Efficiency and Effectiveness

## Improving Efficiency and Productivity

Area of focus	Summary observations	High level risk assessment
<b>Information on costs</b>	<ul style="list-style-type: none"> <li>The DECATS project identified 14 areas across the Council where significant cost savings can be achieved through re-engineering processes and realigning services, particularly support functions.</li> <li>Services undertake unit / transaction level costing e.g. spending per pupil, homecare package, social care placement, benefits claims and supporting people.</li> </ul>	 <b>Green</b>
<b>Comparisons with benchmark partners</b>	<ul style="list-style-type: none"> <li>The Council regularly benchmarks its performance and costs against regional and family comparator groups using tools such as PwC toolkit and CIPFA VfM toolkit. This data is used to inform in-year performance and budget monitoring in addition to annual Budget Star Chambers.</li> </ul>	 <b>Green</b>
<b>Challenge to service delivery</b>	<ul style="list-style-type: none"> <li>Challenge of costs and performance takes place through a variety of mechanisms such as the 'one Derby, one Council' Strategic Board, monthly budget and scorecard monitoring in COG, Budget Star Chambers, Performance Surgeries and Scrutiny Committees.</li> </ul>	 <b>Green</b>
<b>Monitoring achievements</b>	<ul style="list-style-type: none"> <li>The Council Plan is monitored on a quarterly basis, which includes specific targets for budgets, priority objectives and value for money. The Council publishes regular information in the 'Your Derby' residents' magazine, in particular an Annual Report summary of its achievements for each financial year.</li> </ul>	 <b>Green</b>

1 Executive Summary

2 Key Indicators

3 Strategic Financial Planning

4 Financial Governance

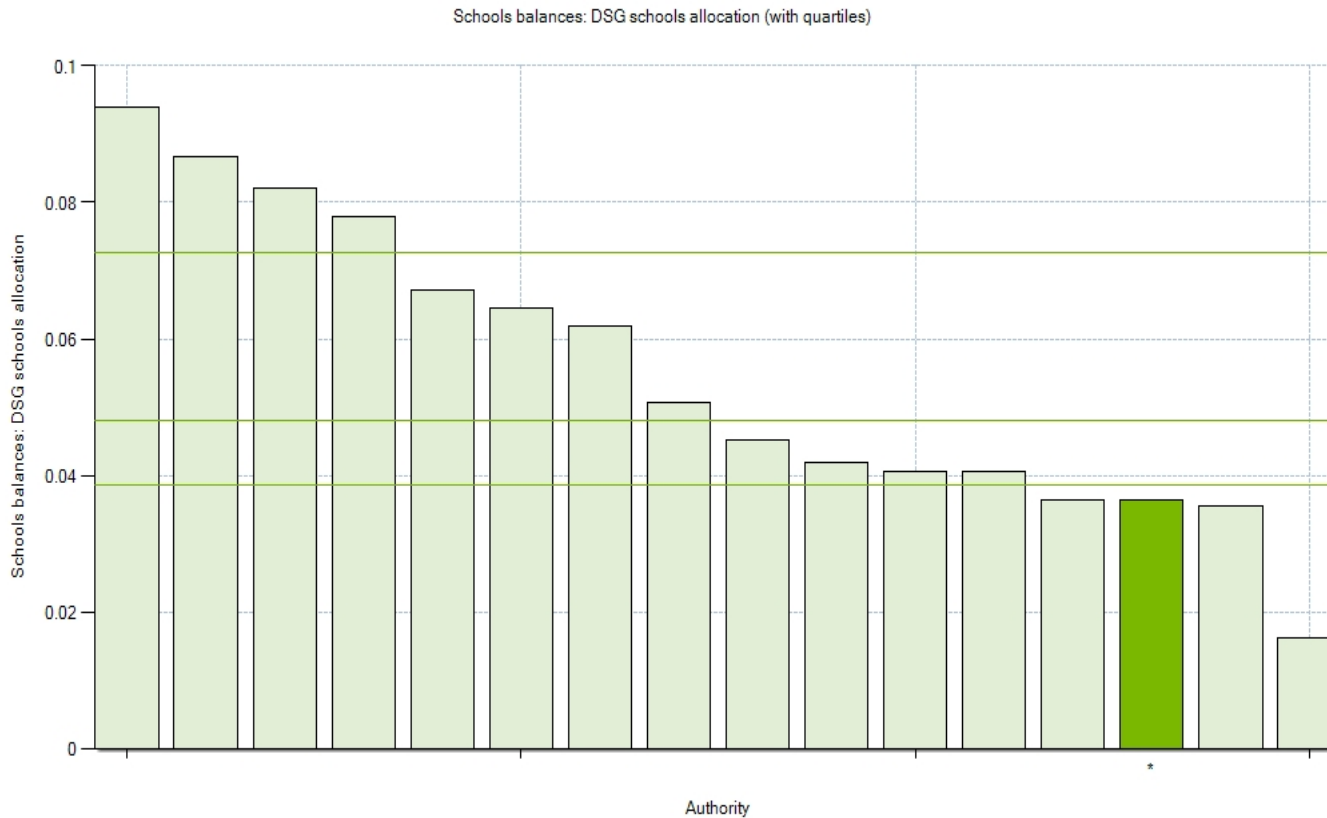
5 Financial Control

6 Securing Economy, Efficiency and Effectiveness

Appendix - Key indicators of financial performance

# Key Indicators of Financial Performance

## Key Indicators (using Derby's VfM Comparator Authorities)



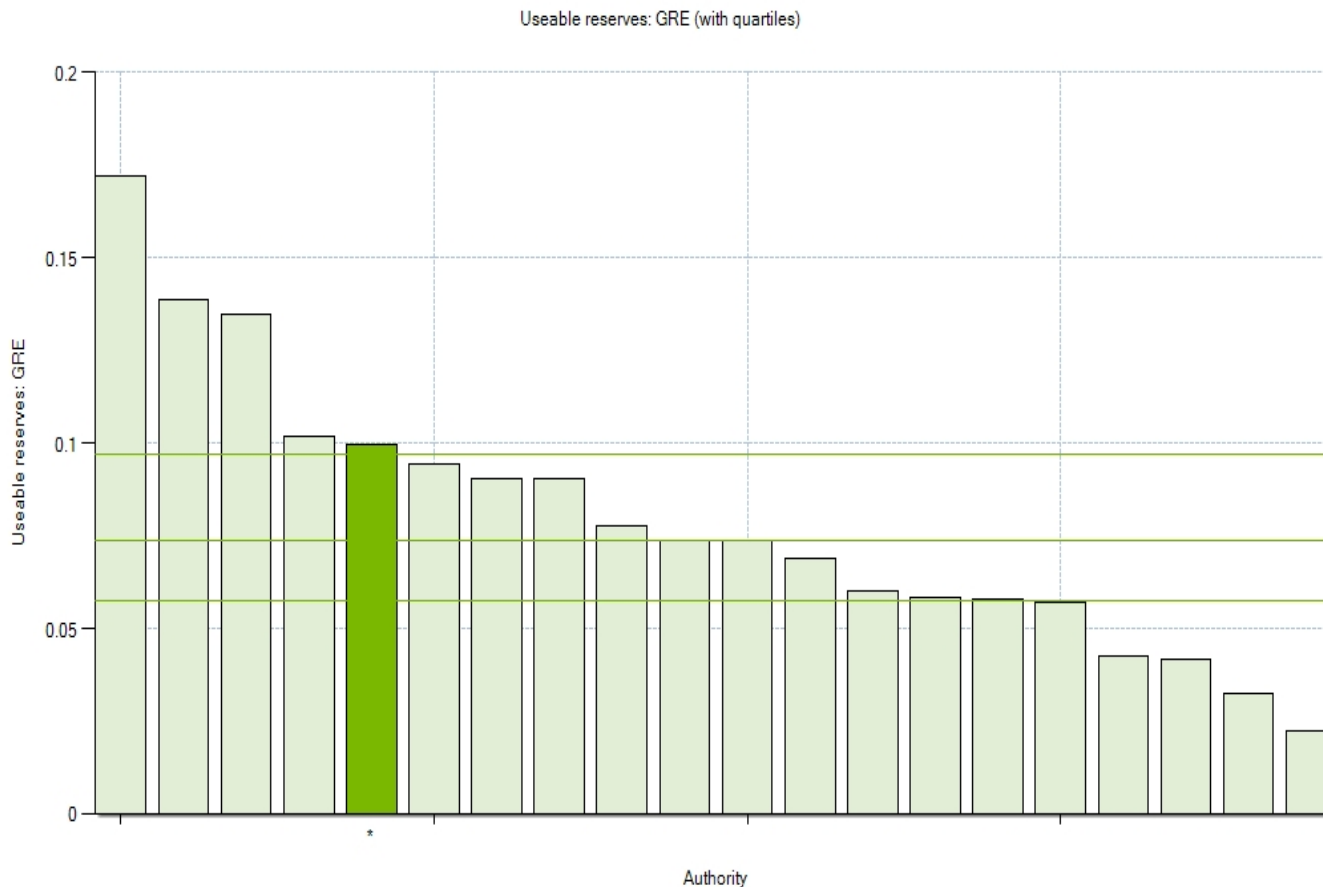
### School balances as a proportion of DSG allocation in 2009/10

This chart represents the share of school balances in relation to the total DSG allocation in the nearest neighbour benchmark group. Derby is shown in green representing a 3% share of DSG allocation remaining unspent at year end. The horizontal lines depict the quartiles of the range. This indicates a good performance.

Source: Audit Commission  
Financial Ratios

# Key Indicators of Financial Performance

## Key Indicators (using Derby's VfM Comparator Authorities)



### Reserves: Useable Reserves in 2009/10

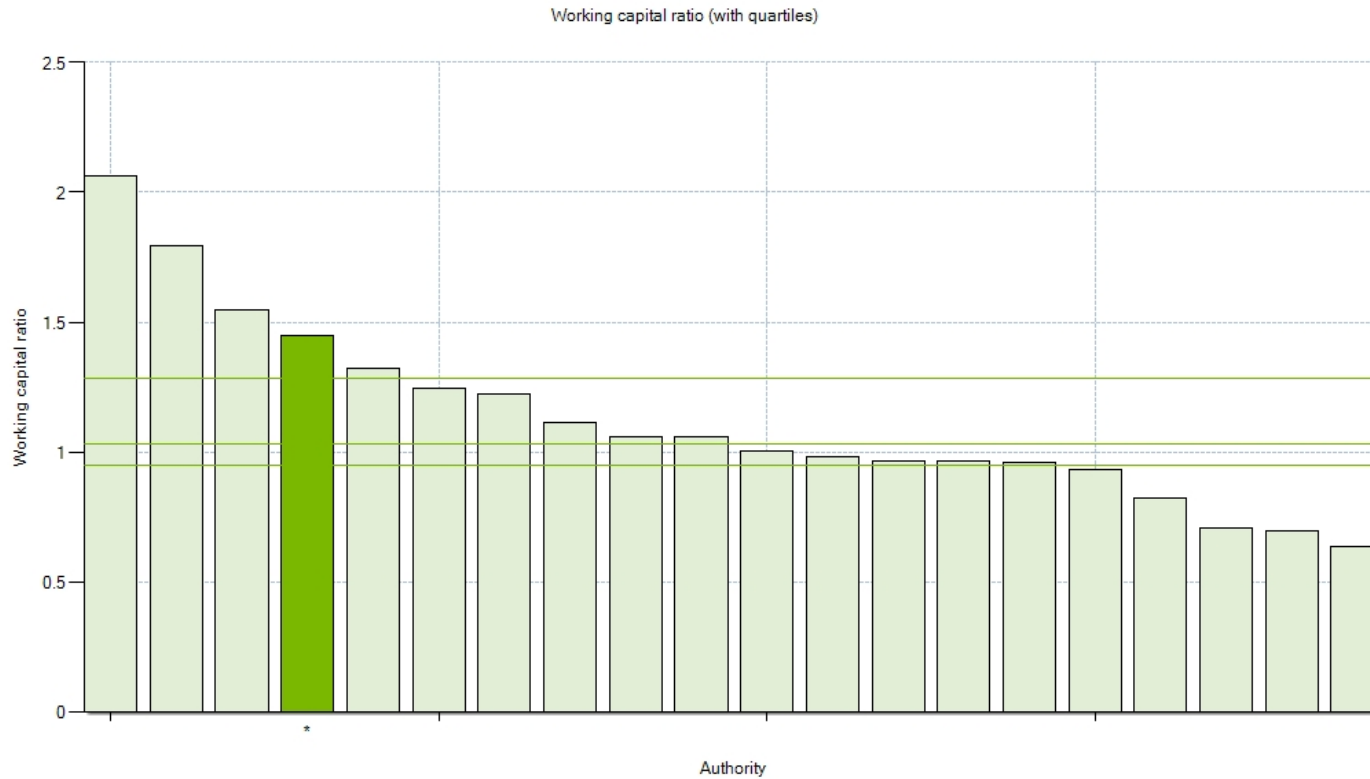
This chart shows useable reserves as a share of expenditure. The Council's figure is highlighted and denoted with an asterisk, showing a relatively strong position in the nearest neighbour benchmark group. It is in accordance with the Council's treasury management policy. Higher reserves generally depict strong performance but can mean that insufficient investment is being made.

Source: Audit Commission Financial Ratios



# Key Indicators of Financial Performance

Key Indicators (using Derby's VfM Comparator Authorities)



## Working Capital Ratio in 2009/10

This indicates if there are sufficient assets to cover liabilities. The Council is identified in green demonstrating a relatively strong position. The higher the figure, the more assets available to cover liabilities.

Source: Audit Commission Financial Ratios



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