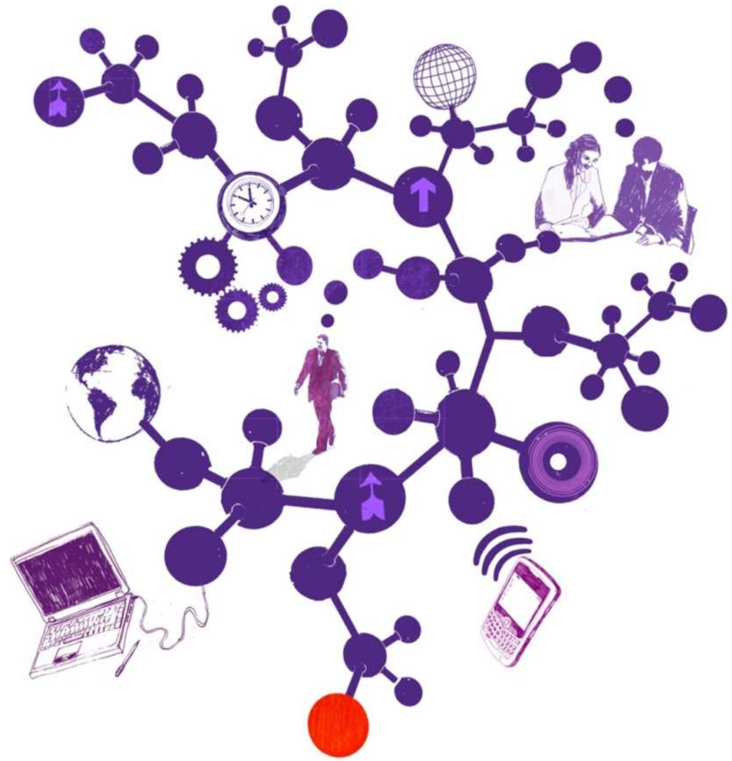
This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

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

Year ended 31 March 2013

August 2013



Emily Hill
Associate Director
T 020 7728 3259
E emily.hill@uk.gt.com

Lynn Clayton
Audit Manager
T 020 7728 3365
E lynn.h.clayton@uk.gt.com

Daniel Woodcock
Assistant Manager
T 01293 554122
E Daniel.Woodcock@uk.gt.com

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Our approach

Value for Money Conclusion

Our work supporting our Value for Money (VfM) conclusion, as part of the statutory external audit, includes a review to determine if the Council has proper arrangements in place for securing financial resilience.

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

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

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

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

Further detail on each of these areas is provided in the sections of the report that follow. Our overall conclusion is that whilst the Council faces some significant risks and challenges during 2013/14 and beyond, its current arrangements for achieving financial resilience are adequate.

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

Green	**Arrangements meet or exceed adequate standards**. Adequate arrangements identified and key characteristics of good practice appear to be in place.
Amber	**Potential risks and/or weaknesses**. Adequate arrangements and characteristics are in place in some respects, but not all. Evidence that the Council is taking forward areas where arrangements need to be strengthened.
Red	**High risk**: The Council's arrangements are generally inadequate or may have a high risk of not succeeding

Executive Summary

National and Local Context

National Context

The Chancellor of the Exchequer announced the current Spending Review (SR10) to Parliament on 20 October 2010. SR10 represented the largest reductions in public spending since the 1920'. 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 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.

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.

The next spending review period will be for a single financial year, 2015-16. Financial austerity is expected to continue until at least 2017.

Local Context

Support from central government grants (redistributed non-domestic rates and the revenue support grant) is the largest single income source for the Council. The grant for 2013-14 is being reduced by 7.2% from the 2012-13 level and the draft settlement for 2014/15 indicates a further reduction of 12.8%. However, the reform of housing finance in March 2012 has led to the prospect of increased funds being made available for the improvement and development of social housing provision.

The district of Dover is an area of relatively high unemployment. This, combined with the downturn in the economy has seen an increased demand for council services in recent years, against a back-drop of decreasing income.

In 2010-11, the forthcoming financial challenges were recognised by the Council . The Council reviewed service provision in all services and made strategic decisions on future service priorities. As a result, the Council has subsequently undergone a number of service restructures and entered into collaborative and shared service agreements with other East Kent authorities and other parties.

Executive Summary

Overview of Arrangements

Risk area	Summary observations	High level risk assessment
Key Indicators of Performance	• Indicators show that the Council 's key financial performance indicators follow the same trends as its nearest statistical neighbours. These trends indicate increases in long term borrowing levels (as a result of new borrowing for housing refinancing), a levelling off of reserve balances and a small improvement in liquidity ratios over the last two years. • As a result of close monitoring and control, the Council's 2012-13 net general fund revenue outturn was underspent by £2,000 and its capital programme was also within budget. • The Council's reserves, as a proportion of its revenue expenditure, are relatively low compared to other authorities, but its useable reserves are in line with the recommended levels set by its S151 officer.. However, the Council's Medium Term Financial Plan (MTFP) indicates potential significant deficits in 2014-15 and 2015-16.	Green
Strategic Financial Planning	• The Council's MTFP and budget for 2013/14 reflect its corporate priorities and strategic plans. The Council continues to consider alternative service delivery options, such as partnership working and outsourcing, with the aim of reducing costs while maintaining service standards. • The Council's detailed annual planning for 2013/14 was completed in parallel with three year MTFP update. Following detailed review and challenge of service plans and budgets the final 2013/14 revenue budget was approved, resulting in a balanced budget after in-year savings of £508,000. • The Council's approach to financial planning, has served it well in the past, but with further funding cuts on the horizon and limited available reserves balanced budgets will become increasing difficult to achieve in the future. The Council will need to ensure that its MTFP continues to remain responsive to changes, given the scale of the savings still required, and the financial uncertainty that remains within the timeframe of the Plan. • The Council knows it has lower levels of council tax compared to neighbouring authorities and it has compared its costs and structures with other authorities through its Delivering Effective Services reviews. However, the Audit Commission's VfM profiles indicate that the Council has higher than average costs in some service areas compared to other councils. The Council could use this comparative data to identify further savings opportunities.	Amber

Executive Summary

Overview of Arrangements (cont)

Risk area	Summary observations	High level risk assessment
Financial Governance	• The Council has a well established approach to financial governance that has delivered solid results in recent financial years. • Cabinet and the Corporate Management Team (CMT) are regularly briefed on financial matters. The quality of finance briefing papers is good, being timely, complete, and reliable. • The Council has good arrangements in place to monitor expenditure in all cost categories through its monthly budget monitoring process and formal quarterly reporting to Members. • There is an appropriate level of senior management and member level engagement in the financial management process. Cabinet is regularly briefed on the financial challenges facing the Council and how they are being managed.	Green
Financial Control	• The Council has well established budget setting processes which encourage ownership from budget holders and include review and challenge of growth and proposed savings plans. • The Council has a robust approach to financial and performance management, and has a good recent record in controlling service expenditure. • The Council's financial systems are fit for purpose and appropriate to its business needs. The key financial systems are used effectively to provide reliable financial monitoring information. • The Finance department is resourced with appropriately qualified and experienced staff. • The internal audit service complies with applicable professional standards and the Council has a track record of acting on internal and external audit recommendations.. • A high level corporate risk register is maintained by the Council and updated regularly. Appropriate risk management information is provided to CMT and members for decision making purposes. The Governance Committee is regularly briefed on the risk management process, but the corporate risk register is not regularly reviewed at Governance Committee meetings.	Green

Executive Summary

Next Steps

Area of review	Key points for consideration	Responsibility	Timescale	Management response
Key Indicators of Performance	• Continue to consider and evaluate ways to reduce the current budget gaps for 2014/15 and beyond to avoid erosion of limited useable reserve balances.	Director of Finance, Housing and Community	Ongoing	A SIMALTO budget consultation exercise is currently being undertaken to support the development of proposals to deliver the required savings for 2014/15 in sufficient time to complete the budget setting process. This work will also include options to progress towards delivering the savings forecast for future years.
Strategic Financial Planning	• The Council will need to ensure that its MTFP continues to remain responsive to changes, given the scale of the savings still required, and the financial uncertainty that remains within the timeframe of the Plan. • The Council should start to actively consider longer term plans and options. • The Council could use available comparative data to identify further savings opportunities.	Director of Finance, Housing and Community	Ongoing	The Council regularly updates its MTFP through update reports to members and CMT and ongoing work with East Kent Services. Our MTFP is for three years and we model for five years for CMT reporting. We don't think we could accurately model much further ahead in the current climate. Comparative data, it is a tool that can be used, but based on our past experience we have not found the comparisons useful as all authorities calculate things differently.
Financial Control	• The Council's Governance Committee should regularly review the corporate risk register to confirm it is complete and that appropriate action is being taken to mitigate the key risks	Head of Corporate Services	Dec 2013	We will consider the proposal and implement if considered appropriate

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
- Reserves: net cost of services
- Long term borrowing to tax revenue
- Long term borrowing to long term assets

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

Adur District Council
Allerdale Borough Council
Canterbury City Council
Dover District Council
Havant Borough Council
Lancaster City Council
North Devon District Council
Newark and Sherwood District Council
Rugby Borough Counil
Scarborough Borough Council
Sedgemoore District Council
Shepway District Council
Swale Borough Council
Waveney District Council
Weymouth & Portland Borough Council
Wyre Forest District Council

Key Indicators

Overview of performance

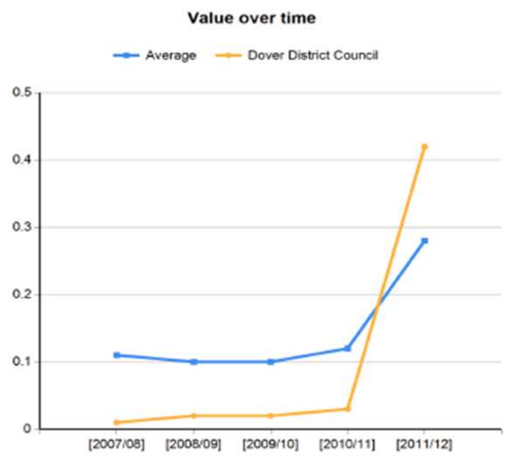
<table>
<tr><th>Area of focus</th><th>Summary observations</th><th>Assessment</th></tr>
<tr><td>Liquidity</td><td>

- The Council's working capital ratio (current assets to current liabilities) has remained relatively stable in recent years and compares well with its nearest statistical neighbours . The Council is one of a small number of councils which have increased their working capital ratio between 2010-11 and 2011-12. This level should be sufficient for the Council to meet its current liabilities without having to resort to use long term assets.
- The Council's Council Tax collection rate is in the lowest third of its comparator group at 97.3%, but it should be noted that all councils in the comparator group have relatively high collection rates, ranging from 99.1% to 96.2%. The Council's NNDR collection rate is average for its comparator group at 98%.

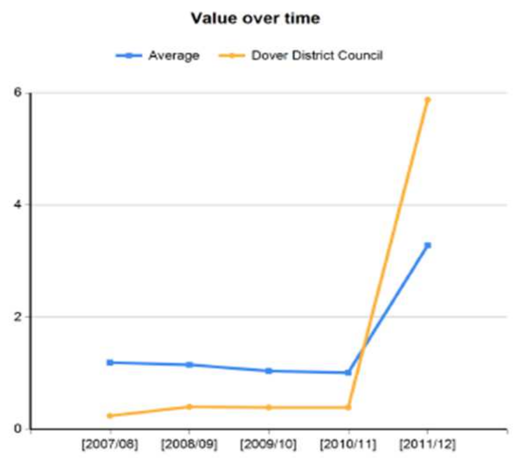
</td><td>Green</td></tr>
<tr><td>Borrowing</td><td>

- The graphs below show long term borrowing as a share of long term assets and long tem borrowing as a share of tax revenue respectively. The Council had consistently lower borrowing ratios than the average for its comparator group until March 2012, when the Council had to take out additional borrowing to fund its HRA refinancing. The impact of this on the Council was greater than average for its comparator group (see pages 34 and 32).

Long term borrowing: Long term assets ratio



Long term borrowing: Tax revenue ratio



</td><td>Green</td></tr>
</table>

Key Indicators

Overview of performance (cont)

Area of focus	Summary observations	Assessment
Performance Against Budgets: revenue & capital	• The Council has a good record of achieving its planned budgets over recent years. In 2012-13 it continued to manage expenditure well and achieved a £2,000 underspend for the year. • The Council delivered a significant surplus on its housing revenue account (HRA) in 2012/13, which enabled it to transfer an additional £2.5m to its Housing Initiative reserve, for use in future housing projects. This surplus was predominantly due to the impact of recent housing reforms on the HRA and are ring-fenced for HRA purposes. . • The Council spent £5m on its capital programme in 2012-13 , which was broadly in line with its budget.	Green
Reserve Balances	• The Council's reserves, as a proportion of its revenue expenditure, are relatively low compared to other authorities, but the Council has increased this ratio slightly over the last few years. The Council's general fund balance has remained relatively stable over the period. • The Section 151 officer has set recommended general fund reserve levels for the Council of £2m.The Council's MTFP specifies a minimum level for the general fund balance of 10 per cent of the net budget requirement, or £1.5m. Its general fund reserve balance at 31 March 2012, of £2.3m, was above this minimum and this level has been maintained in 2012-13. • Most of the Council's useable reserves are earmarked for future expenditure, with £612,000 set aside to fund local government reforms and £565,000 for local projects. Earmarked reserve levels increased by £500,000 in 2012-13. • Useable capital receipt balances were relatively low. at 31 March 2012 (£1.4m), but balances were increased significantly to £2.8m in 2012/13 following asset sales . • The Council's 2013-14 budget projects a small surplus for the year. Its MTFP indicates potential deficits of £800k in 2014-15, increasing further to £1.4m the following year . The Council will need to take action to address these budget gaps to avoid significant erosion of useable reserve balances.	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 (MTFS)

Area of focus	Summary observations	Assessment
Focus of the MTFP	• The Council's Medium Term Financial Plan (MTFP) and budget for 2013/14 reflect its corporate priorities and strategic plans, such as ICT investment and further restructuring of services. The Council has an Employment Stability process to manage staff changes. The Council continues to consider alternative service delivery options, such as partnership working and outsourcing, with the aim of reducing costs while maintaining service standards. • The main challenges facing the Council in setting its MTFP are linked to continuing uncertainties over future government funding, restrictions in Council Tax increases, the financial impact of implementing the new Council Tax Reduction scheme (replacing Council Tax Benefit) and changes to the way business rates income is redistributed. • Consultation with residents was undertaken as part of the budget setting process for 2013/14 , although there were a low number of responses. Plans were therefore drawn up by the Council to undertake a comprehensive resident consultation process for 2013/14 to obtain more up to date information on preferred service priorities. The Council plans to incorporate this in its next MTFP update.	Green
Scope of the MTFP and links to annual planning	• The Council's detailed annual planning for 2013/14 was completed in parallel with its work to update its three year MTFP . The Council finalised its updated three-year MTFP for the period to 2015/16 in February 2013. • Following detailed review and challenge of service plans and service budgets for the year, the final 2013/14 revenue budget was also approved by members in February 2013. This detailed review closed the funding gap for the year, resulting in a balanced budget after in-year savings of £508,000. Savings proposals from Heads of Service were subject to challenge by the Finance team and CMT before consideration by members. • The Council's Delivering Effective Services team supports all service reviews to help identify savings over and above those identified by managers. During the review process the Council identify savings for future years, as well as in year savings, to help balance current and future budgets. • The Council's MTFP covers a three year period only, although its MTFP financial models cover a five year period so that the Corporate Management Team (CMT) get a longer term view. There is no longer term financial planning or modelling due to the uncertainties about future funding levels and the full financial impact of LG reform. • The Council's current approach to financial planning, with use of contingencies and reserves and annual savings targets has served the Council well in the past, but with further funding cuts on the horizon and limited available reserves balanced budgets will become increasing difficult to achieve in the future. . The Council should therefore start to actively consider longer term plans and options.	Amber

Strategic Financial Planning

Medium Term Financial Strategy (cont)

Area of focus	Summary observations	Assessment
Adequacy of planning assumptions	• The Council uses cautious but realistic estimates in setting its budgets. Advice is sought from appropriate external sources when required e.g. long term inflation and interest rates. • Assumptions included in the MTFP on central government income are based on the 2013/14 financial settlement, which also includes figures for 2014/15. Further year-on-year reductions have also been assumed for the longer term, but these, of necessity, have a lower level of certainty.	Green
Review processes	• During the financial planning cycle, budget forecasts and savings options were developed by each service for review and challenge by CMT. In 2012/13 all services were required to present a number of options for consideration, ranging from continuation of present service levels to reduction of services to the statutory minimum. The options were considered by CMT to identify those which best met strategic priorities. The decisions taken were then assessed by the Scrutiny Committee before being approved by Cabinet. • The Council knows it has lower levels of council tax compared to neighbouring authorities and has carried out limited review of its unit costs. The Council's Delivering Effective Services reviews include comparisons of current structures and costs with other authorities, e.g. the planning review had comparative cost and performance data and included visits to and comparison with Ashford and Dartford. • The Audit Commission's VfM profiles indicate that the Council has higher than average costs in some service areas compared to other councils, e.g. benefit services. Whilst there may be inherent limitations in the this data, the Council should start to actively consider all available comparative data to identify possible savings opportunities	Amber
Responsiveness of the Plan	• The Council refreshed its MTFP during its annual financial planning cycle in February 2013. Future years will also be reviewed annually, and this process has already commenced for 2014/15. • The Council constantly updates its forecasts and regularly updates its MTFP through update reports to members and CMT and ongoing work with East Kent Services. The Council will need to ensure that its MTFP continues to remain responsive, to changes. In the short term this should include regularly revisiting the financial assumptions made in relation to the retention of business rates, changes to universal benefits, and the impact of the Council's Council Tax reduction scheme.	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	• Cabinet and CMT are regularly briefed on financial matters, such as the budget setting requirements and the Council's financial strategy. They consider key finance decisions, such as Council Tax levels and the implications of the Localism Act and other local government reform on future income and expenditure levels. • The quality of finance briefing papers is good, being timely, complete, and reliable. • Council standing orders cover financial management responsibilities . They are regularly reviewed and updated. • Members and officers are adequately financially aware and understand the main risks which face the Council.	Green
Executive and Member Engagement	• There is an appropriate level of senior management and member level engagement in the financial management process. Cabinet is regularly briefed on the financial challenges facing the Council and how they are being managed.	Green
Overview of controls over key cost categories	• The Council has good arrangements in place to monitor expenditure in all cost categories through its monthly budget monitoring process and formal quarterly reporting to Members. • The Council updates its budget monitoring system overnight with the previous day's transactions, providing cost centre managers with 'real time' information on expenditure and income.	Green

Financial Governance

Monitoring and review

Area of focus	Summary observations	Assessment
Budget reporting: revenue and capital	• A quarterly budget report is presented to Cabinet for all revenue and capital budgets. These reports include the original budgets for the period, any approved budget variations and the forecast full year position. Where there are significant variations between budgeted and actual outturn explanations are sought from the relevant service or cost centre manager. and explained in the report. • Monthly monitoring takes places within service lines and Heads of Service discuss the monthly reports with their Cabinet leads as appropriate. • Budget monitoring reports are at a level of detail that enables CMT, Cabinet and Committees to make effective decisions. • The Council focuses on achieving budgeted income, as well as controlling expenditure in line with approved budgets. Where there are cost overruns, additional cost savings are identified and implemented to ensure overall delivery of the budget. The Council has a good track record of delivering its services within budget over recent years.	Green

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 well established budget setting processes which encourage ownership from budget holders and include review and challenge of growth and proposed savings plans. • The Council uses an incremental budgeting approach, which focuses on historic baselines with adjustments for contract inflation, growth and savings pressures. • The Council has a good track record of managing budgets on a service by service basis. • The Council's budget monitoring process clearly recognises the accountability individual Heads of Service have for the financial management of their departments. • Each cost centre manager has been allocated a named finance team member as their key contact for all financial queries and to assist with budget monitoring. • Cash flow is also actively monitored and forecast by the Council, with excess cash balances being invested in accordance with the Council's approved investment management policy.	Green
Performance against Savings Plans	• The Council's annual budget setting process includes the identification and approval of savings plans for each service area. • Progress in delivering savings is monitored regularly as an integral part of the budget monitoring process. • The Council has a good track record of delivering savings plans whilst maintaining service standards.	Green
Key Financial Accounting Systems	• The Council's financial systems are fit for purpose and appropriate to its business needs. • Internal audit reviews of the key financial systems have not identified any significant weaknesses in key system controls over the last couple of years..	Green

Financial Control

Internal and external assurances

Area of focus	Summary observations	Assessment
Finance Department Resourcing	• The Finance department is resourced with appropriately qualified and experienced staff. • There was a restructure of the Finance team in 2012 which aligned all finance functions under two managers, both reporting to the Head of Finance. • Staff turnover is low. The Finance department operated with one FTE vacancy for most of 2012-13, but has recently recruited a new member of staff.	Green
Internal audit arrangements	• Internal audit is provided by the East Kent Audit Partnership. We reviewed the service against the CIPFA Code of Practice for internal audit in February 2013 and concluded that the service complies with the applicable professional standards. • The internal audit plan is approved by the Governance Committee annually and includes coverage of operations provided by shared service arrangements, such as the East Kent Services and East Kent Housing. • The Council has a good record of acting on Internal Audit recommendations. Any agreed recommendations not completed in line with the agreed timescales, are reported to the Governance Committee in the regular internal audit update reports..	Green
External audit arrangements	• The conclusions from the most recent Annual Governance Report (for 2011-12) were as follows: - The financial statements submitted for audit were complete and well prepared. - The Council has an effective financial planning framework and sound arrangements for financial governance and financial control.. The Council takes a strategic approach to the prioritisation of resources and achievement of cost reductions through improved efficiency and productivity • The Council has taken actions to address issues raised in previous years and has made good progress in implementing recommendations in relation to the audit findings.	Green
Assurance framework/risk management	• A high level corporate risk register is maintained by the Council and updated regularly. Managers are also responsible for maintaining their own service level risk registers. The MTFP, which is approved by Council, includes a detailed list of the financial risks.. • Appropriate risk management information is provided to CMT and members for decision making purposes. The risk register is taken to CMT approximately three times per year. All members are aware that the risk register is available on the Intranet should they wish to review it. • The Governance Committee is regularly briefed on the risk management process, but the corporate risk register is not regularly reviewed at Governance Committee meetings.	Amber

Key Indicators of Financial Performance

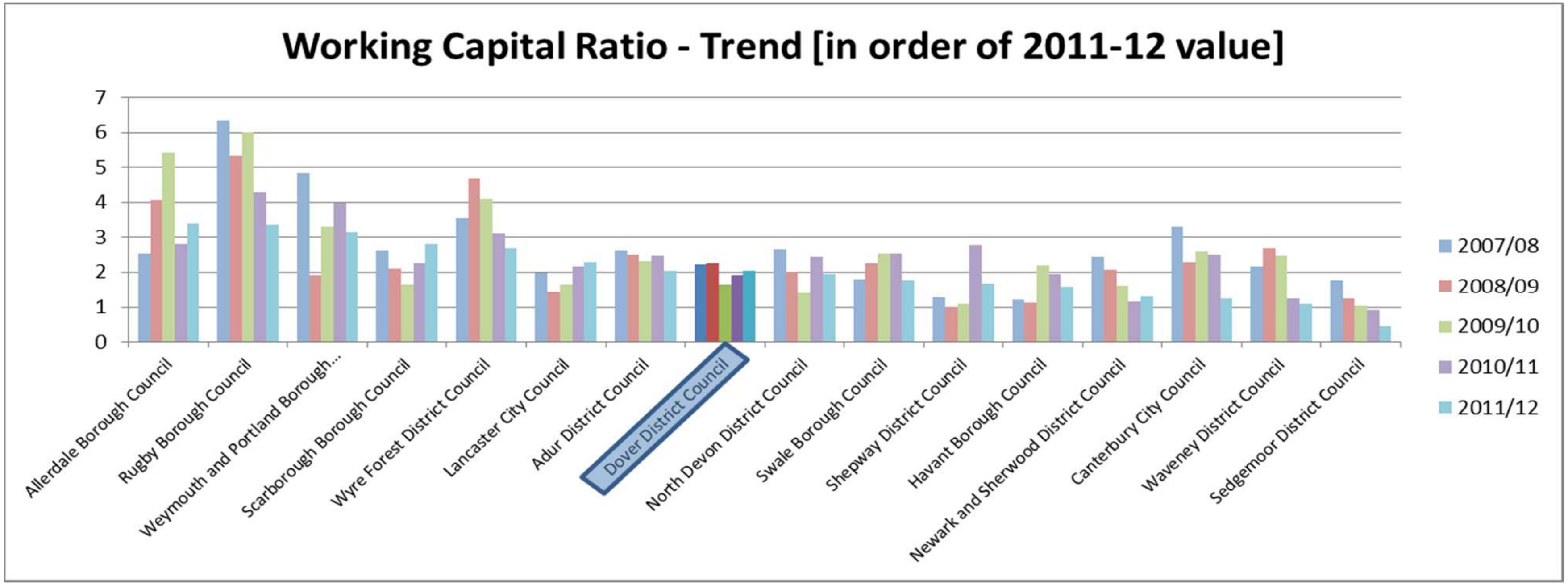
Working Capital - Benchmarked

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

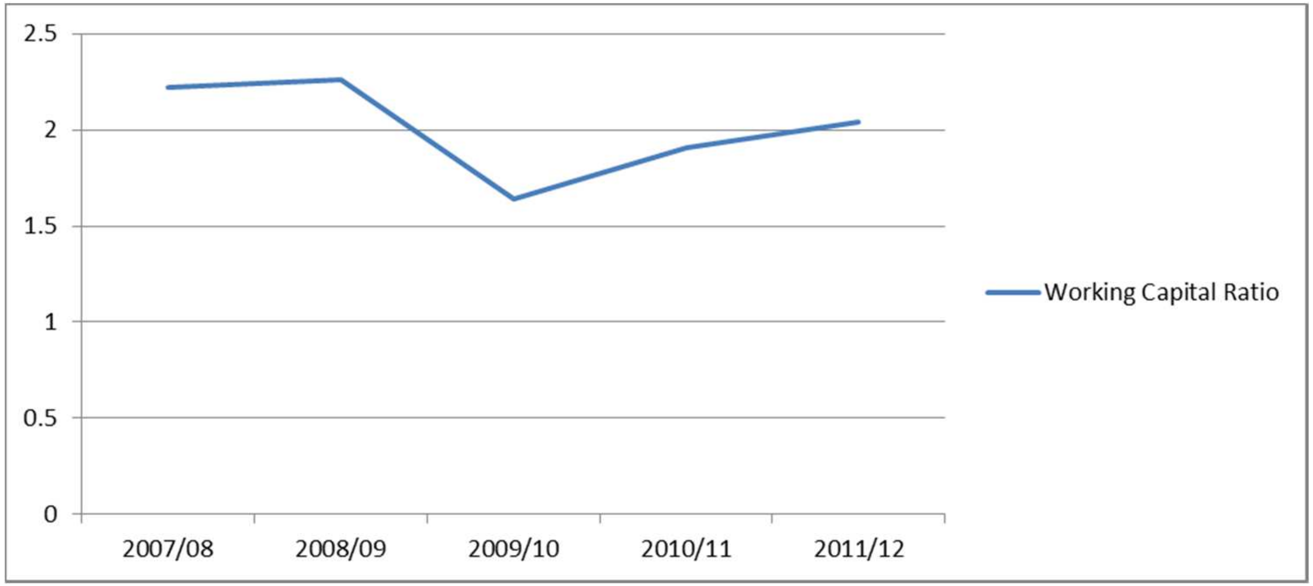
Half of the group of statistical near neighbours, including Dover, have working capital ratios above the 2:1 benchmark and half of the group have ratios that are below the benchmark. Dover is one of only five councils in this group that has managed to increase their working capital from its 2010-11 level. Dover's working capital ratio has remained relatively stable. Its ratios have the second lowest standard deviation in this group for the period shown.



Source: Audit Commission Financial Ratios Profile

Key Indicators of Financial Performance

Working Capital - Trend



As noted on the previous page, Dover's working capital ratio has been relatively stable over the period shown in the graph.

The 2009-10 financial year shows a fall in working capital of 27%. This is because the Council had to take out a £10m loan, repayable after 28 days, to help it meet its financial obligations in March and April 2010.

The Council has subsequently reduced its short term liabilities and its working capital ratio has therefore increased.

Source: Audit Commission Financial Ratios Profile

Key Indicators of Financial Performance

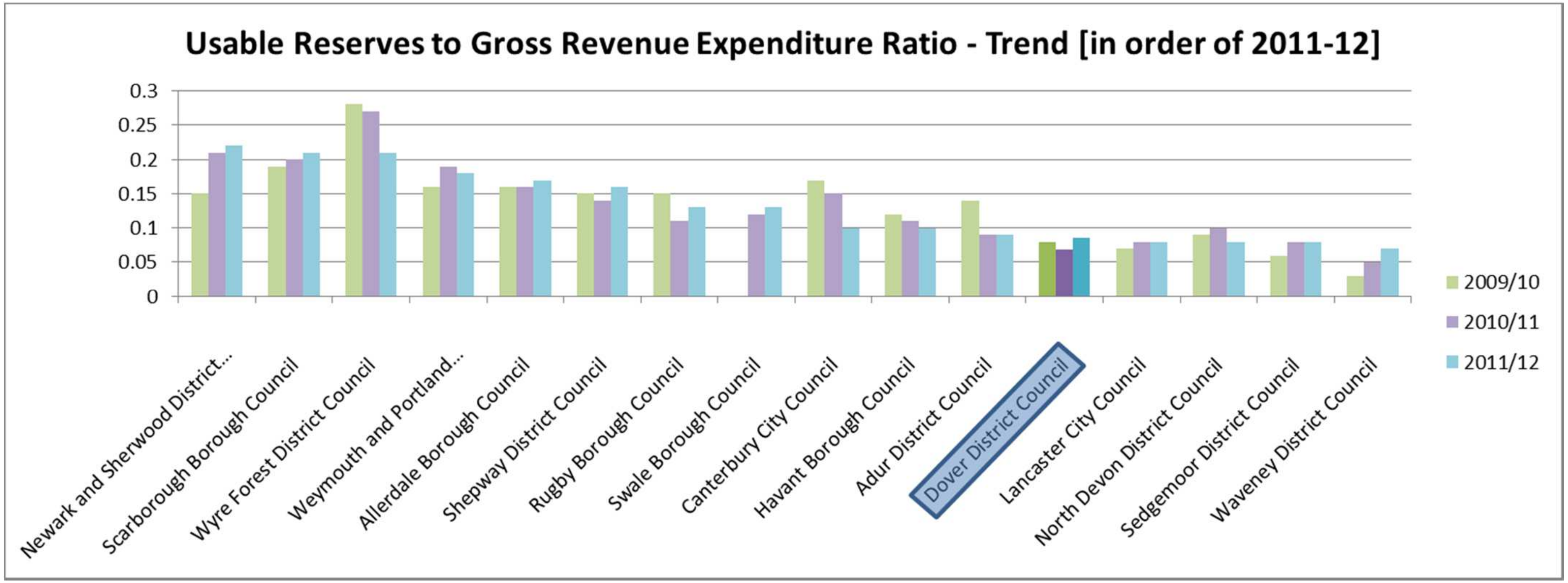
Usable Reserves - Benchmarked

Definition

This graph shows usable capital and revenue reserves as a share of expenditure. A ratio of one means the total reserves match the level of expenditure. In recent years some large exceptional items have been charged to the income and expenditure account, for example the change in calculation of pension liabilities and HRA settlement payments. To allow an effective comparison to be made of year-on-year data these items have been excluded.

Findings

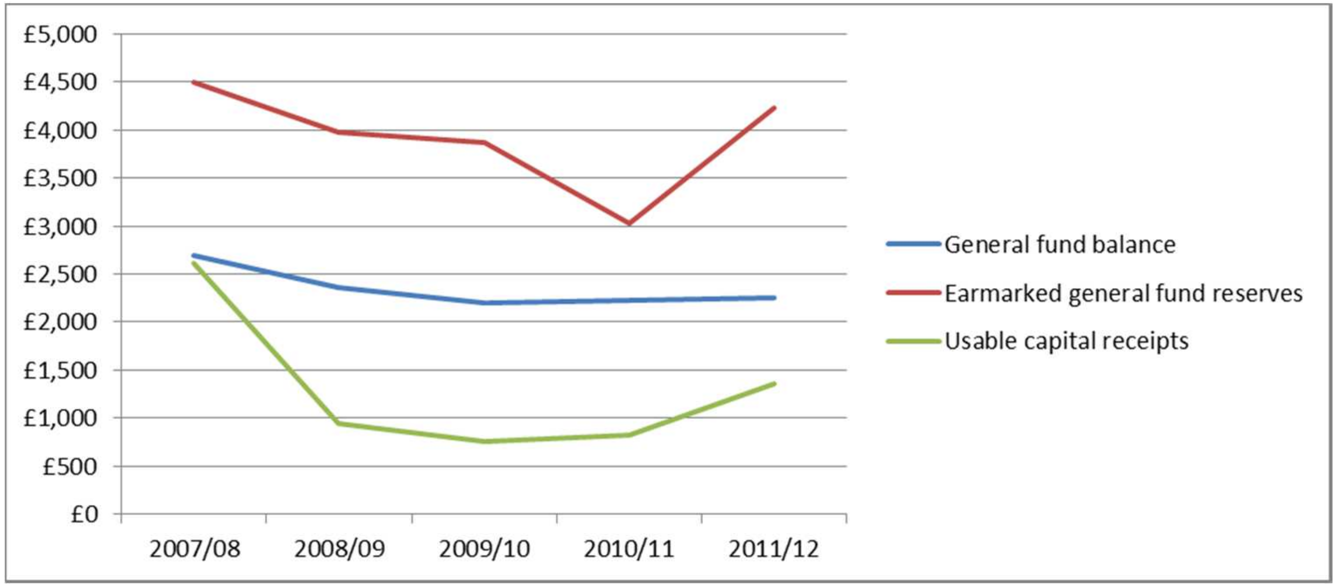
The graph indicates that the Council's reserves, as a proportion of its revenue expenditure, are relatively low. CIPFA's guidance on reserves is that the useable reserve level should follow the S151 officer's advice to the Council, which should be based on local circumstances. The Council's MTFP specifies a minimum level for the general fund balance of 10% of the net budget requirement or £1.5m. The reserve level at 31 March 2012, of £2.3m, was above this minimum and this level has been maintained in 2012-13.



Source: Audit Commission Financial Ratios Profile

Key Indicators of Financial Performance

Usable Reserves - Trend by Type



Source: Dover District Council Statements of Accounts 2007/08 to 2011/12

This graph shows that most of the Council's useable reserves are earmarked for future expenditure. Although the Council's earmarked reserves had been falling over the period from 2007 to 2011 they were significantly increased in 2011-12. The accounts for this period show that this was mainly due to £565,000 being transferred to the 'special projects' reserve and £612,000 to the 'business rates and council tax' reserve. The latter has been set up to fund any additional costs associated with local government business rates and council tax reforms.

The level of the general fund balance has remained fairly stable over the five year period.

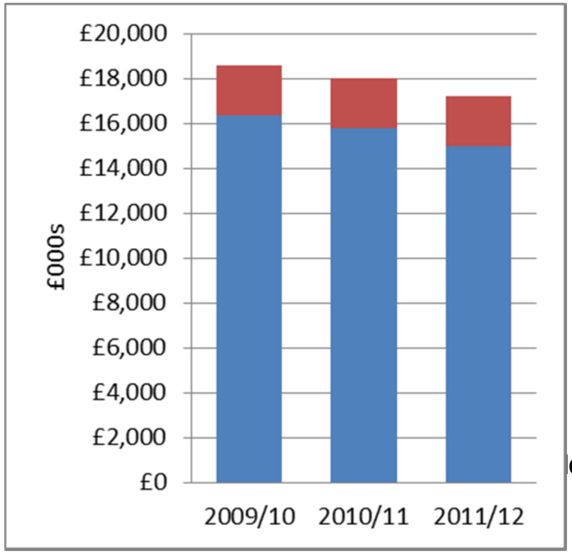
The Council's usable capital receipts are relatively low, which affects its ability to finance capital projects from its own resources. The Council's 2013-14 Medium Term Financial Plan indicates that it will have £0.5m available to fund new projects from 2014-15, but that £3.3m of future capital expenditure is required. The plan highlights £4.7m of potential capital receipts that it could use to fund the capital programme, but if these cannot be secured alternative sources of finance will be required.

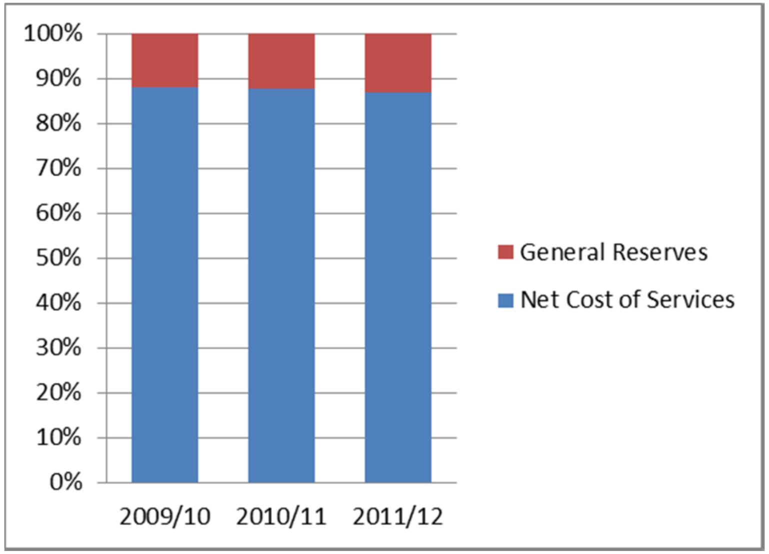
Key Indicators of Financial Performance

Reserves

The graphs below show the Council's general reserve levels compared to its net cost of services. The first graph shows this in actual terms, the second in percentage terms.

The comparison excludes any exceptional items of income and expenditure to allow for a consistent comparison.



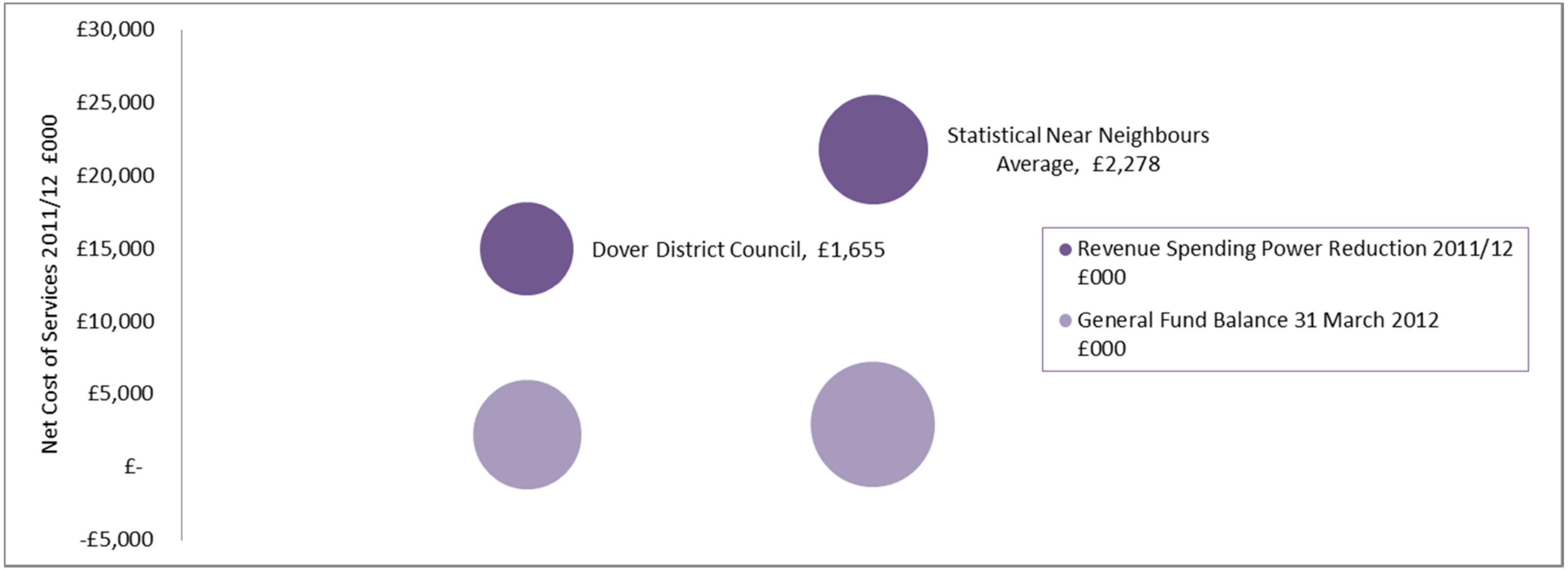


The first graph shows a slight decrease each year in the Council's net cost of services, once exceptional items have been taken into account.. The reduction in 2011-12 was due to the impact of an impairment of the Council's housing stock. The income and expenditure account for this period shows reductions in net expenditure on all non-housing services apart from Central Services to the Public. Highways and Transport Services shows a particularly significant decrease in gross expenditure, which is largely due to the government's decision to transfer responsibility for concessionary travel to upper tier authorities (Kent County Council in this case).

The second graph shows that the Council has maintained its general fund balance at just over 10 per cent of its net cost of services for each of the periods.

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 by 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. The chart shows that the Council's reduction was lower than its nearest statistical neighbours, but it should be recognised that its net cost of services are also lower. Expressed as a percentage of its net cost of services, the Council's reduction in spending power was 11.05 per cent, compared to an average of 10.45% for its nearest statistical neighbours.

The lower circles show the size of the general fund balance. (This is also shown by the circle's position on the y-axis.) For both the Council and its statistical neighbours, the general fund balances were greater than the reductions in their net cost of services at 31 March 2012.

Key Indicators of Financial Performance

Long Term Borrowing to Tax Revenue - Benchmarked

Definition

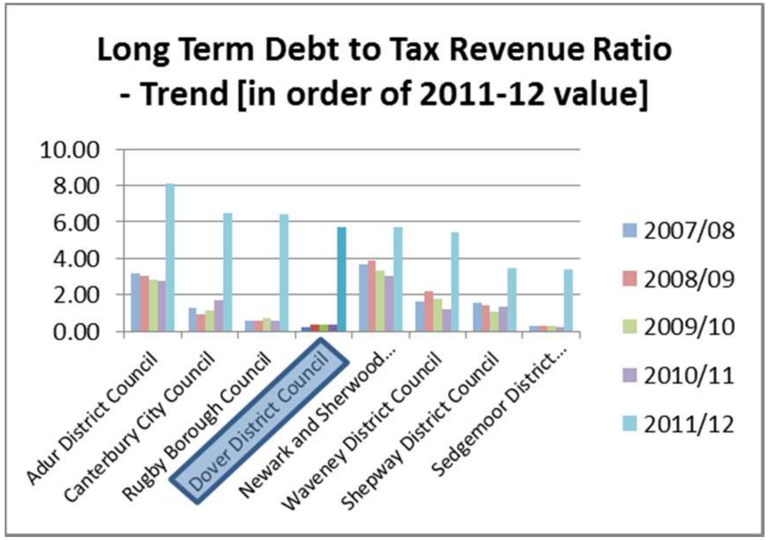
These graphs shows long tem borrowing as a share of tax revenue. A ratio of more than one means that long term borrowing exceeds council tax revenue.

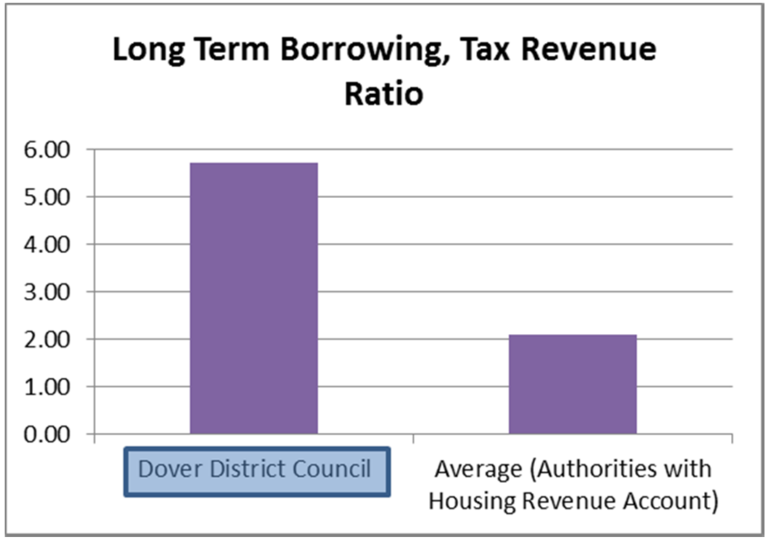
Findings

Only those authorities with a housing revenue account (HRA) are included in the graphs on this page. This is because the method of funding the HRA was changed by the government in 2011-12. Instead of paying over a proportion of their housing income as housing subsidy, local authorities now retain rental income. In return they had to make a lump sum payment to the government (based on the value of their housing stock) to re-finance their HRA in March 2012. This was a significant amount in many cases, which was funded through PWLB loans. This explains why the 2011-12 ratios are much higher than in previous years.

The first graph shows Dover's long term debt to tax revenue ratio compared with the ratios for the other seven authorities with a HRA in its comparator group. The second graph compares Dover's ratio with the average of all local authorities with a HRA. The value of the existing debt held by Dover was relatively small compared to the other authorities in its comparator group, but the amount of debt it had to take on due to HRA re-financing was the second highest at £90m. However, it is important to note that the debt repayments essentially replace the housing subsidy payments which the Council would previously have made to central government. The last subsidy payment the Council made to central government was £5.9m in 2011-12.

The Council had freedom to decide its HRA debt repayment terms, to ensure that its annual repayments were affordable. The Council took out a fixed interest rate loan over 30 years. .The Council's HRA budget indicates that its 2012-13 debt principal and interest repayment is £4.702m. The Council has therefore effectively reduced its annual expenditure by £1.2m.

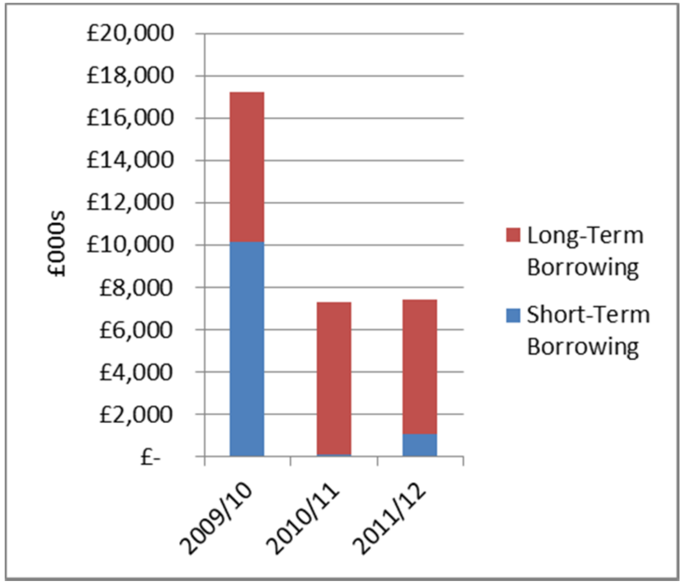


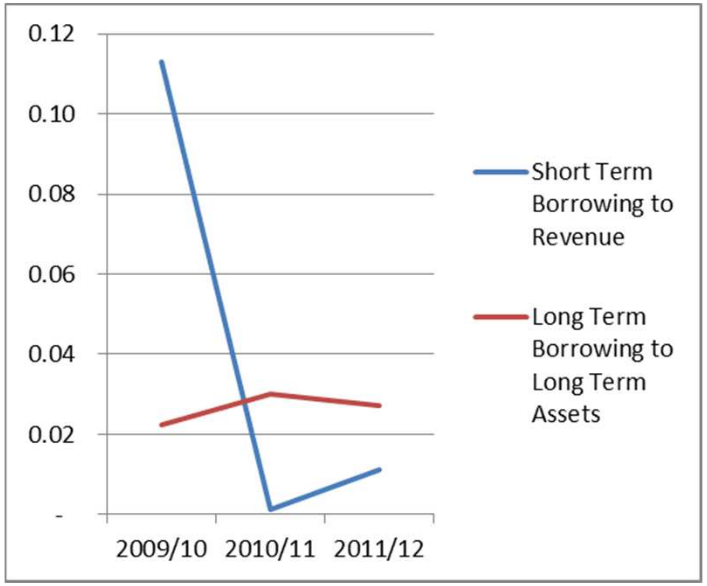


Source: Audit Commission Financial Ratios Profile

Key Indicators of Financial Performance

Borrowing





In these charts exceptional items, such as the borrowing taken out for the HRA, (see previous page) have been excluded from the data to allow for a consistent year-on-year comparison.

The second graph shows that the Council's long-term borrowing (excluding its £90m HRA financing) is 3% of the value of its assets.

The Council's short-term borrowing. of £1.078m, represents 1.12% of its revenue from all sources. A high percentage would indicate that the Council may have difficulty with liquidity when it needs to repay the borrowing. This is not the situation for Dover.

Source: Audit Commission Financial Ratios Profile

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.

Key Indicators of Financial Performance

Long-term borrowing to Long-term assets - Benchmarked

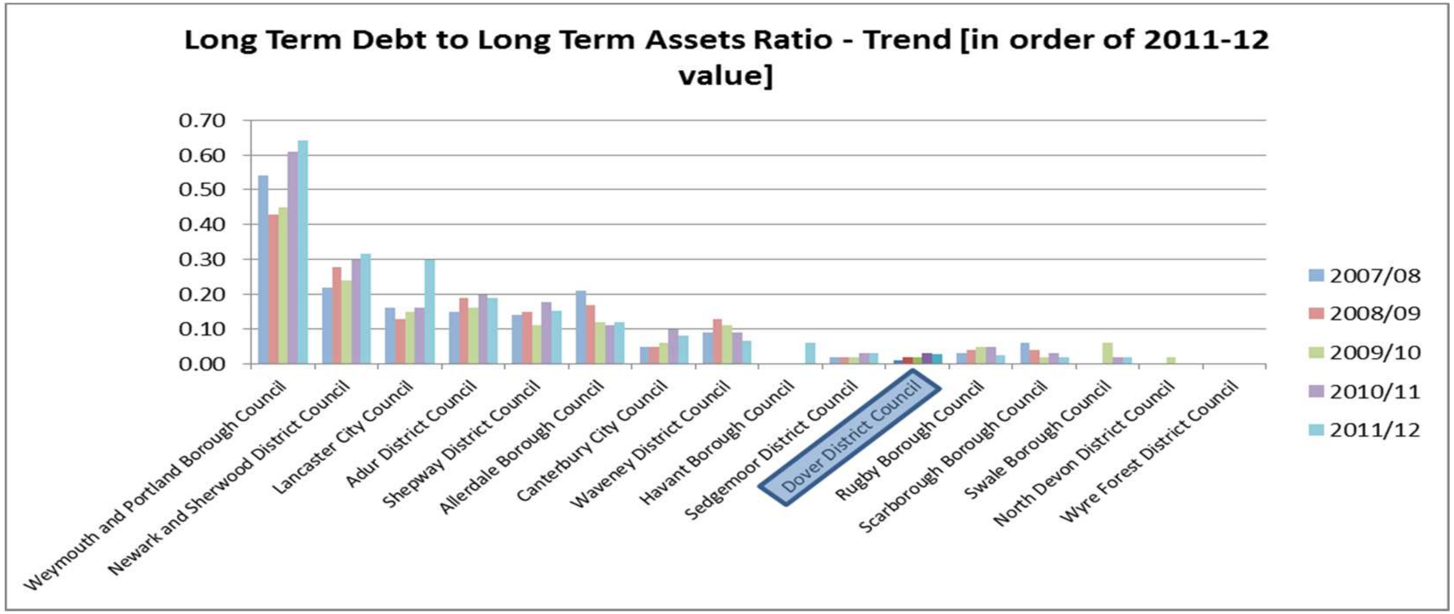
Definition

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

In the group of Dover's statistical neighbours Adur, Newark and Sherwood, Rugby, Shepway, Waveney, Canterbury, Sedgemoor, and Dover itself have housing revenue accounts. In 2011-12 these councils took on a large amount of long-term debt (see previous pages). The debt has been excluded in the graph below to allow for a consistent comparison with other authorities.

Long term debt is usually used for financing investment in long term assets, so a ratio of less than one means that the authority would have to sell some of its assets to repay its borrowing. Councils may be reluctant to take on additional long term borrowing at this time due to uncertainty of their future level of income arising from cuts in central government funding. Only three of the councils in Dover's comparator group have taken on additional long-term borrowing since 2010-11. Dover is not one of these, decreasing its long-term borrowing.



Source: Audit Commission Financial Ratios Profile

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