

audit 2001/2002

Audit Memorandum -
Financial Standing
**South Derbyshire
District Council**

INSIDE THIS SUMMARY REPORT

PAGES 2 - 5

Summary Report

- Introduction and scope
- Financial health

PAGES 6 - 7

- Key financial health indicators 2001/2002



DISTRICT AUDIT

Reference:	sderbdc6 audit memo - financial standing 01-02 - Final
Date:	21 November 2002 LT/SJ

Introduction and scope

1. Our Audit Plan for 2001/2002 explained the work we would be carrying out to meet our Code of Audit Practice responsibilities. This report gives the results of our audit work on the Council's financial standing in respect of our responsibilities covered by financial aspects of corporate governance.

Financial health

Is the **general financial standing** of the Council soundly based?

The Council's financial standing has been stabilised. Achievement of the three year financial plan remains a challenge.

General

2. The Council continues to pursue its objective of providing high quality, economic and efficient services against the background of an increasingly restricted financial environment. We have reviewed financial performance for 2000/2001 and to date in 2001/2002 and future financial strategies; in particular examining:
 - The Council's response to the financial crisis in 1999/2000
 - 2001/2002 performance
 - the capital programme
 - the Housing Revenue Account
 - financial performance of significant trading accounts
 - income collection and arrears.

Financial crisis

3. The Council experienced a significant financial crisis during 1999. The Council has responded well to this crisis and as a result has risen from it with sound financial management arrangements.
4. The Accounts provide further reassurance that the Council can look forward to the future with a sound financial base with prudent levels of balances and systems in place to ensure that it manages its finances responsibly.
5. This does not mean that the Council can be complacent. Just like any other Council, South Derbyshire will continue to face the pressure of meeting the increasing needs of local residents and new government legislative requirements from within limited resources. With this in mind the Council is involving residents of South Derbyshire in helping to inform these difficult spending decisions by seeking their views on what they see as priorities for Council spending.

2001/2002 performance

6. The outturn on the general fund was £6.8m, representing an underspending of £0.4m (comparing final out-turn to probable position), a better than anticipated result. As a result, general fund reserves were increased to £1.9m.
7. In view of the positive out-turn further progress is being made to achievement of the three year financial plan - ie balances in excess of £500,000.
8. Your general fund balance and reserves as a % of net operating expenditure is now just below average in comparison with other shire districts nationally (see Appendix 1).
9. Earmarked reserves (which are not available to support general revenue expenditure) are increasing as a result of sound financial management.

EXHIBIT 1 ANALYSIS OF RESERVES AND BALANCES AT 31 MARCH

The level of reserves has increased significantly in the short term.

Reserve	2003 projected £000	2002 £000	2001 £000	2000 £000
Earmarked reserves	1,737	1,590	1,530	797
General fund balance	1,517	1,905	1,136	796
Usable capital receipts	1,620	1,870	146	0
HRA balance	934	1,262	929	205

The future

10. Exhibit 2 shows that spending exceeded SSA by 7% in 2001/2002 compared to a gap of 21% in 1999/2000. Now that the situation has stabilised, budget spending is estimated to exceed SSA by 5% in 2002/2003.

EXHIBIT 2 NET EXPENDITURE COMPARED TO THE COUNCIL'S SSA

Spending is projected to exceed SSA by 5 % in 2002/2003

	2002/2003 £000	2001/2002 £000	2000/2001 £000	1999/2000 £000
Net expenditure (= original budget)	7,810	7,572	7,130	7,663
South Derbyshire's SSA	7,427	7,064	6,743	6,329
Percentage over SSA	5	7	6	21

Source: South Derbyshire District Council budget working papers

11. We are pleased to note that the Council continues to produce longer term financial strategies and that the finance briefings have been re-introduced.

Recommendation

R1 Members should continue to give priority to keeping under review a longer term financial strategy to ensure that both capital and revenue budgets can be matched to available resources whilst maintaining adequate working balances. Members should also continue to receive regular budget reports in-year to track spend against forecasts.

Capital programme

12. The capital programme budget of £5.6m was underspent by £0.4m or 6.5% mainly as the Council carried forward resources to the 2002/2003 programme. The Council has set up a Capital Programme Working Group to monitor the position on a monthly basis. Members should continue to monitor the situation.

Housing Revenue Account (HRA)

13. The HRA balance increased by £0.3m to £1.3m at the end of 2001/2002, a better than anticipated outturn. There were a number of reasons including reduced expenditure on housing repairs. The HRA balance is now equivalent to some £350 per dwelling which stands comparison with other districts nationally (see Appendix 1).

Recommendation

R2 The Council should continue to review HRA spending plans to ensure that they are sustainable whilst maintaining an appropriate level of reserves.

Significant trading accounts

14. Following the demise of CCT, three of the former DSO activities continue to be managed on a 'soft split' basis under which net operational costs for the year are fully recharged to the authority's services. Performance is no longer monitored and reported on the same basis as in previous years although the Council has introduced improved monitoring arrangements for the DSOs, which identifies more clearly the budgets and costs of delivering the services. The Housing DSO continues to be monitored on a like basis and its performance is summarised in Exhibit 3 below.

EXHIBIT 3 PERFORMANCE OF THE HOUSING DSO

The Housing DSO has continued to perform well

	Surplus as % of turnover 2001/2002	Surplus 2001/2002 £000s	Surplus as % of turnover 2000/2001	Surplus 2000/2001 £000s
Housing maintenance	4.4	30	9.9	82

Source: South Derbyshire District Council statement of accounts

15. The former DSOs were reviewed last year as part of the Audit Commission Inspection Service's review of 'Cleansing the Environment'. This outcome of this Inspection was positive for the Council.
16. However, given this and the fact that requirement to achieve a breakeven position has ceased with the demise of CCT, we still consider it important that Members continue to monitor the performance of the former DSOs to ensure they provide Best Value and deliver continuous service improvement.

Recommendation

R3 The Council should continue to monitor the performance of the Council's significant trading accounts particularly the need to achieve continuous service improvement under the Best Value regime.

Arrears

17. A key element of the financial health of any organisation is its ability to collect money owed to it. Your approach to debt management continues to accord with good practice and the amount owed by your principal debtors reduced to £4.2m. Of this total, £1.6m has been assessed as doubtful and provision has been made in the accounts accordingly. The provision for bad debts is reasonable and is regularly reviewed for adequacy.

EXHIBIT 4 KEY AREAS OF ARREARS AT 31 MARCH

Arrears overall have reduced during 2001/2002

Arrears	2002 £000	2001 £000	2000 £000	1999 £000
Housing Rents	329	286	273	287
Council Tax	1,235	1,276	1,305	1,118
NNDR	576	710	711	562
Sundry Debtors	2,031	3,393	1,888	2,321
Total	4,171	5,665	4,177	4,232

Source: Financial statements and final accounts working papers

18. The overall picture is positive.
- Housing rent arrears have increased marginally and represent 3.8% of the gross debit.
 - Council Tax arrears have reduced marginally. Your collection rate in 2001/2002 was 98% (98.3% in 2000/2001) compared with a shire district average of 97.4%.
 - Similarly NNDR arrears have reduced to £0.576m and your collection rate was 99.4% (98.9% in 2000/2001) compared to a shire district average of 98.2%.
19. Sundry debtor arrears have reduced by £1.3m but still give some cause for concern especially since £0.5m of the total is over a year old.
20. Whilst a bad debt provision of £1.6m has been established, this should not deter further recovery action where this is feasible. Uncollectable amounts should be written off and effective recovery action taken in other areas. Members should monitor developments here.

Status of our reports to the Council

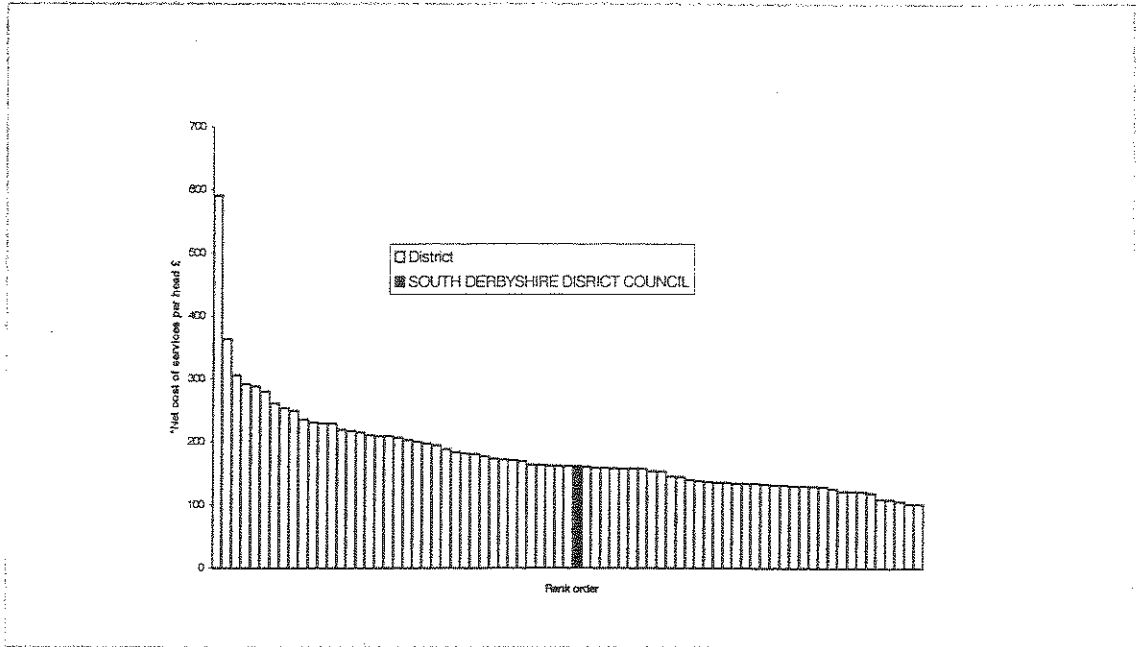
Our reports are prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Reports are prepared by appointed auditors and addressed to Members or officers. They are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Member or officer in their individual capacity, or to any third party.

Key financial health indicators 2001/2002

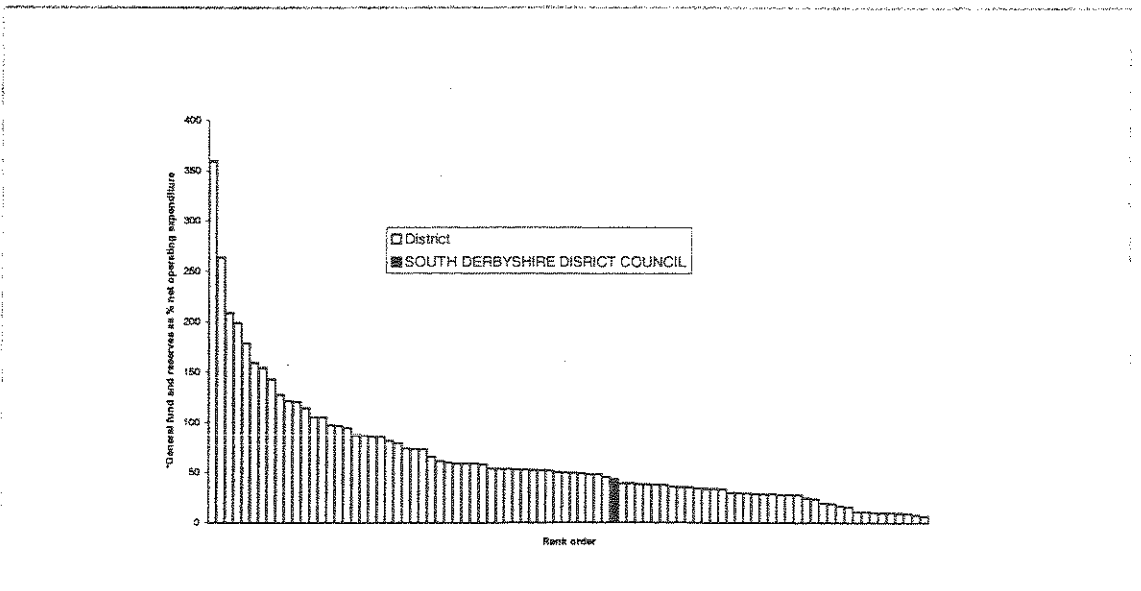
Source District Audit Financial Health Database

Comparative Group English Shire Districts

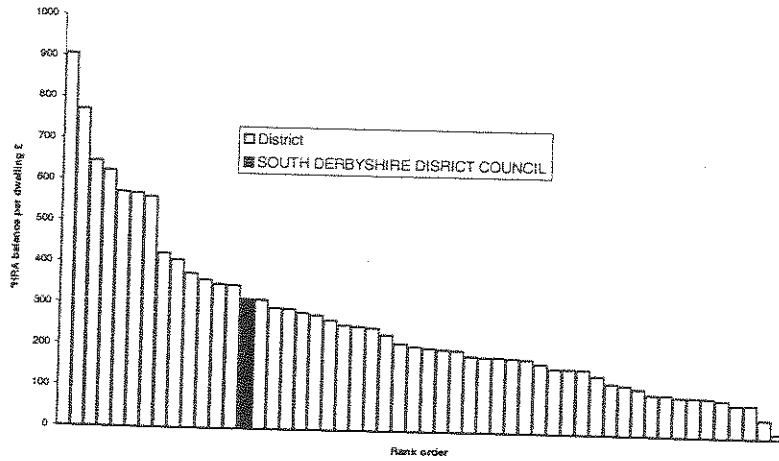
KEY INDICATOR - NET COST OF SERVICES PER HEAD



KEY INDICATOR - GENERAL FUND AND RESERVES AS % OF NET OPERATING EXPENDITURE



KEY INDICATOR - HRA BALANCE PER DWELLING £



KEY INDICATOR - DEBTORS AS % OF GROSS INCOME

